TRADE, AGRICULTURE AND INDUSTRIALISATION IN THE ECONOMIC DEVELOPMENT OF GHANA, 1951-1972

David Wolseley Prah

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– by –

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ABSTRACT

By 1951 Ghana had developed into a primary produce exporter of some significance; its per capita income was one of the highest in tropical Africa. At the beginning of that year a ten-year development plan was implemented and shortly afterwards the country, incidentally, was granted internal self-government, an event which brought a nationalist party, the Convention Peoples Party (CPP), into office. Dissatisfied with the tempo of economic development as envisaged under the ten-year plan the CPP government had the plan telescoped into one of five years. Furthermore, notwithstanding the relative prosperity the country had acquired by being a primary producer, the nationalist government indicated its intention to embark on a programme of industrialisation. Consequently, Prof. W. Arthur Lewis was invited to Ghana in 1952 to advise on how best to industrialise the country.

In his report entitled "Industrialisation and the Gold Coast" Prof. Lewis intimated, among other things, that the secret of industrialisation was a reapdly progressing agriculture which should produce more food as well as raw materials for the industrial sector.

Ghana's prosperity through the export trade has depended largely on cocoa, which at the beginning of the 1950s constituted more than 50 per cent of the value of the country's total exports. Because the crop had been noted for its high price instability, there was much talk in the country about the need to diversify agricultural output and the agricultural produce entering the export trade.

Under the nationalist government the amount actually spent on the industrialisation programme represented an increasing percentage in the series of development plans which were implemented as from 1951: 3.5 per cent under the 1951 Plan; 8.1 per cent under the 1957-59 Consolidated Plan and 15.3 per cent under the 2nd Development Plan which began in 1959.

On the other hand the amount spent on agriculture under each of the plans was about 5 per cent of the total expenditure. More importantly, with respect to agriculture the amount spent was a decreasing proportion of the planned estimates. Under the plans the Government failed either to expand or diversify the agricultural sector and as a result export earnings became stagnant after the mid-50's. In addition the agricultural sector failed to produce more food for the increasing population in the non-agricultural sectors and adequate raw materials for the nascent industrial sector.

By the beginning of the '60s the high rate of industrialisation and the stagnant export earnings had resulted in the near depletion of the country's foreign exchange reserves which were accumulated mostly during and immediately after the second world war: Not desiring to reduce the tempo of industrialisation, the CPP Government imposed a series of controls in order to curb private consumption. At the same time the Government entered into a wide range of supplier credit agreements mostly for industrial projects. The supplier financed manufacturing projects depended heavily on imported in-puts and were almost all "turn-key" projects. In the face of import controls most of them under-utilised their capacity and became high cost by world market prices.

By 1966 Ghana's industrialisation programme had got the country into large foreign debt and in view of its stagnant agricultural sector there was increasing dependence on imported food. The price of cocoa fell steadily on the world market contrary to the expectation of the Government and the balance of payments worsened.

The CPP government was overthrown in early 1966 and the new government that came into office, the National Liberation Council adopted different measures to rehabilitate the economy, especially by cancelling prestigeous projects and reducing the central government's expenditure so as to bring it in line with its revenue. The other measures adopted included the devaluation of the national currency by 30 per cent in 1967, the adoption of a two-year development plan which included expansion and diversification of the agricultural sector and a moderate trade liberalisation alongside the budgeting of imports. Cocoa prices improved on the world market after 1966 and mainly for this reason the measures of the NLC were moderately successful; the balance of trade deficits, for example, narrowed from year to year.

In 1969 the Busia civilian government was voted into office and soon embarked on a massive import liberalisation. The government also continued with the agricultural policy of the regime it replaced. With high cocoa prices prevailing on the world market all went well with the Busia government massive liberalisation measure, but throughout 1971 cocoa plunged steadily and the balance of trade deficits widened. The Government was forced to devalue again by nearly 40 per cent in December and brough about economic hardship and another coup. The new military government the National Liberation Council immediately imposed trade controls, partially revalued the currency but continued with the agriculture policy of its predecessors by adopting an "Operation Feed Yourself" slogan.

Declaration

I hereby declare that this thesis is based on research carried out by me, that the thesis is my own composition, and that it has not previously been presented for a higher degree.

The research was undertaken by me partly in the University of St. Andrews and partly in Ghana after my admission as a research student under Ordinance General No.12 in October 1974 and as a candidate for the Ph. D. Degree under this resolution.

DAVID W. PRAH
Candidate

Certificate

I certify that the aforesaid candidate has fulfilled the conditions of the Resolution and Regulations prescribed for the degree of Doctor of Philosophy.

STATEMENT OF QUALIFICATION

Author graduated M.A. (joint honours in Economics and Geography) with 2nd Class at the University of St. Andrews in 1953.

He taught at Wesley College Kumasi, Ghana from 1953 to 1959 and then proceeded to the U.S.A. in September 1959 on a scholarship awarded by the Instituted of International Education of America. He graduated M.A. in Economics at the University of Colorado, Boulder, U.S.A. in September, 1960.

He was appointed lecturer in Economics at the University of Science and Technology, Kumasi in 1961. He is now a Senior Lecturer in Economics and Head of the Department of Economics & Industrial Management U.S.T. Kumasi. He was admitted for higher studies in St. Andrews in 1972 and to the Ph. D. programme by research in 1974

STATEMENT OF QUALIFICATION

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In undertaking this study I have in diverse ways become indebted to many people in different walks of life. Their assistance enabled me to get enough material on which to commence writing and later to proceed with the needed facilities until the work was completed. My hearty thanks go to all of them, but especially to the staff of the Industrial Section of the Central Bureau of Statistics, Accra; the technical staff of the Geography Section, Department of General and African Studies, and the teaching assistants and the clerical staff of the Department of Economics and Industrial Management both of the University of Science and Technology, Kumasi.

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LIST OF ABBREVIATIONS

ADC	Agricultural Development Corporation, Ghana.
CBS	Central Bureau of Statistics, Accra.
CIB	Capital Investment Board, Accra
CMB	Cocoa Marketing Board, Accra.
CPP	Convention Peoples Party, Ghana.
GIHOC	Ghana Industrial Holding Corporation, Ghana.
IDC	Industrial Development Corporation, Ghana.
ISIC	International Standard Industrial Classification
MDPI	Management Development and Productivity Institute, Accra
NIB	National Investment Bank, Accra.
NLC	National Liberation Council, Ghana.
NRC	National Redemption Council, Ghana.
PP	Progress Party, Ghana.
SITC	Standard International Trade Classification.
USAID	United States Agency for International Development.

INTRODUCTION

At the beginning of 1951 a ten-year development plan for Ghana was implemented. In view of the fact that the country was predominantly agricultural a reasonable proportion of the total amount to be spent under the plan was assigned to the agricultural sector. Shortly after the plan's implementation the country was granted internal self-rule and the government consequently came under the control of a nationalist party whose members were strongly for a rapid development of the country, especially through industrialisation. With the nationalists in power subsequent development plans were oriented more and more towards industrialisation.

Through the exports of primary products Ghana by 1951 had been able to enlarge considerably its exchange sector and to have attained one of the highest per capita incomes in tropical Africa. To the nationalists, however, the trend of economic development left much to be desired, not because the economy had become pronouncedly mono-cultural through the phenomenal expansion of cocoa growing, but because the country's development had not been given the industrialisation bias which some indigenous political leaders had been advocating since the closing decades of the nineteenth century.

The purpose of this study is to show that by devoting much of the country's resources to a programme of industrialisation and con- currently failing to promote the expansion and diversification of agriculture the government in office from 1951 to 1966 weakened Ghana's capacity to earn more foreign exchange and thereby endangered the industrialisation programme by which so much store had been set. The study also shows that by accelerating economic development whilst failing to improve the country's capacity to import through increased export earnings the 1951 to 1966 government accumulated for Ghana a huge foreign debt and rendered difficult efforts by post-Nkrumah governments to rehabilitate the economy.

Ghana's experience in encountering difficulties in its attempt to industrialise is not unique in the developing parts of the world, but it nevertheless illustrates quite clearly what happens to a country when in the process of industrialisation it fails to maintain a judicious balance between agricultural development and industrial development; it furthermore highlights the important role which the agricultural sector has to play, if an industrialising country is to be kept out of foreign debt, by growing at home as much food as possible to feed the emergent industrial population, by producing domestically as much raw materials for the requirements of industry and by producing for exports sufficient produce to pay for all the needed imports.

It was not until 1957 that the name of the country was changed from the Gold Coast to Ghana. However, throughout the study the name Ghana has been used for the country, both before and after it was officially so named.

(Note: In this study the following conversion rates apply: ₵2.00 = £G1.00 = £1.00)

CHAPTER 1

THE GENESIS OF THE ECONOMY OF GHANA, 1951

(i) Introduction - The structure of Ghana's economy in 1951 took many centuries to evolve and the motivations of the politicians who undertook to transform it in subsequent years were largely influenced by the history of the structure's evolution. The historical antecedents also provide a background to the chain of economic events that took place in Ghana from 1951 to 1972 as well as a basis for appraising the motivations of those who made decisions concerning the direction and tempo of the country's post-1951 economic development.

The broad sweep of economic events can be considered under the following headings:

(a) the transactions which centred around gold,

(b) the slave trade and

(c) the post-slave trade economic activities.

The impact of these activities on changes in economic structure varied from group to group. Changes were indeed very slow at first. In the very early days there was no intermingling between the indigenous people and the European traders and in such circumstances the former experienced very little or no changes in their cultural practices, their techniques and their norms. This was particularly so when the chief commodity of trade was gold.

Though the trade, was on the whole, considered to be profitable by both sides, the Europeans found the bargains (the terms of trade) to be most favourable. Old clothes, copper[1] baubles and later rum and utensils were exchanged for gold dust and nuggets and subsequently slaves.

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1. See John Williams Blake (ed) Europeans in West Africa, 1450-1560, Vols. I & II, Haklnyt Society, London, 1942, Document 79 - A Castilian Account of the Discovery of Mina C. 1474. Again Dickson makes reference to a translated Portuguese account which states that around the end of the fifteenth century the Portuguese made 500 per cent or more profit on what they sold at Elmina. See Kwame B. Dickson, A Historical Geography of Ghana, C.V.P. London, 1969, p.105

After the abolition of the slave trade the only commodities the local people could offer for the wares of the Europeans were, in addition to gold, ivory, palm products (oil kernel) and rubber. Apart from slaves the commodities trafficked in for export were all products of pure extractive industries in which the upper limit to output is set by nature's munificence or niggardliness. It was not until the closing decades of the nineteenth century that there came into being an economic activity - cocoa production - which exploited the possibilities offered by the environment in contrast to the other activities in which the natural environment was deterministic. But this new activity developed after nearly four hundred years of trade exchanges with Europe. What were the underlying reasons ? Indeed, if we abide by the dictum that "Natura non facit saltum," then we have to consider how far the nature of the structural transformation of the economy of Ghana prior to 1951 can be used as a basis for assessing the inherent flexibility of the economy as it has subsequently been. It is also of much value to the framing of appropriate economic policies for the future. We shall therefore now proceed to an account of the principal economic activities of Ghana up to 1951.

(ii) Trade in gold - In the country's commerce by sea with the outside world since 1471 gold has always been an item of trade. One estimate has put the amount of gold that was exported by sea from the area during the period 1471 - 1800[2] at over 14 million crude ounces. The trade in gold became, nonetheless, less attractive to the European merchant adventures when,

2. After the Saracen penetration of the Sahara in the tenth century A.D. gold became a regular article of commerce in the overland trade between the Mediterranean countries and the territories bordering the Gulf of Guinea. It is widely believed that some of the gold sold at Timbucktu and the adjacent trading centres might have been obtained from the forest belt lying to the south of Timbuckty, i.e. the region in which present-day Ghana is situated. The figures given in Table 1.1 refer only to maritime shipments. See John William Blake(ed) op.cit. chapter 1 and G.K. Allen "Gold Mining in Ghana" in African Affairs, Vol.57.1958, p.221, to 240

as a result of the great demand for labour on the American cotton plantations, traffic in slaves became a more lucrative venture during and after the eighteenth century. Table 1.1 provides a breakdown of the exports of gold from the country for a period of 410 years, i.e. 1471 to 1880. As shown there the average annual exports of 40,000 crude ounces during the period 1471-1780 fell to the average of 10,000 crude ounces per annum from 1751 to 1800. The abolition of slavery in the first decade of the nineteenth century, however, led to a revival of the trade in gold and so between 1801 and 1850 exports were back at their 1471-1750 level. The improved situation unfortunately did not last for long because primitive mining techniques used to obtain the gold ore from below the water table created problems which resulted in a steady decline in output.

Table 1.1 GOLD EXPORTS FROM THE GOLD COAST - 1471 TO 1880

Period	Average annual Exports (Crude oz.)	Total Exports (Crude oz.)
1471-1750 (280 yrs.)	40,000	11,200.000
1751-1800 (50 yrs.)	10,000	500,000
1801-1850 (50 yrs.)	40,000	2,000,000
1851-1880 (30years)	25,000	750.000
Total (410 years)	-	14,450,000

Source: G. Keith Allen: "Gold Mining in Ghana" in African Affairs, Vol.57, 1958, p.221

After the annexation of Ghana by Britain in the 1880s expatriate mining companies began to prospect intensively for gold in the country with the most modern equipments. In view of the African gold miner's simple technology, the competition from foreigners very quickly put paid to his gold mining activities.[3]

From 1880 to 1955-56 (a period of 76 years) a total of 22,257,237 ounces of gold was mined by the expatriate concerns operating in Ghana, an average of 292,858 ounces per annum.[4]

(iii) Slave trade – The trade in gold was rivalled and later eclipsed by dealings in slaves along the Guinea coast, west of the Gold Coast, before the discovery of America, it was only after the establishment of plantations in the Carribean Islands and on the American mainland that the veracious demand for negro labour to work on them caused an escalation of the trade and the traffic reached its peak in the eighteenth century.

Another item which can be counted among the major exports of the region during the seventeenth and eighteenth and eighteenth centuries was ivory; it was however, not as highly prized as the two items already mentioned and the quantities exported were not as large as those from its neighbouring country, the Ivory Coast.

(iv) Export activity in Ghana after the abolition of slave trade

suppression?

(a) Agriculture before the annexation of Ghana by Britain – The beginning of the slave trade in the early decades of the nineteenth century resulted in a diminution in the total volume of commerce. The trade in gold once again

3. During the early centuries of trade in gold the inhabitants sold to the European traders accumulated collections from alluvial deposits and beach sands. When these sources became depleted the indigenous gold winners were compelled in later years to seek the metal by sinking pits in order to reach the auriferous lodes; the simple technology employed did not permit work on lodes which were so located below the water-table that attempts to reach them were frustrated by incessant flooding. See, Kwamina B. Dickson, op.cit. chapters 4 and 8. See, also D.A. Sutherland, "Gold Through the Ages – The Primitive Uses of Gold and Methods of Gold Mining – with particular reference to the Gold Coast." Government Printing Department, Accra, 1952. Sutherland states that in some parts of the country the local people developed sophisticated techniques for reaching the lodes located at great depths.

For many centuries gold mining was in the hands of the local people and controlled by the native states; these prevented the participation of foreigners in the activity and also kept from them the secret of the locations of the deposits.

4. See, C. Keith Allen, op.cit.

became the most important maritime export activity and the amount exported per annum increased to its former high level. (See, Table 1.1). But the situation did not hold for long.

The Dutch and the British were the two major European trading nations left in Ghana after the abolition of the slave trade and the changed economic conditions compelled their traders to look for new produce for purchase.

The Dutch introduced many exotic crops into Ghana and by the beginning of the eighteenth century had established food farms in the vicinity of their coastal settlements in order to produce locally part of their food requirements; they also set up a few plantations to produce for export. Sugarcane, indigo, cotton, lime and tobacco were some of the crops they experimented with, some of them with marked success. However, the Dutch venture in production for export, was completely insulated from the agricultural practices of the local people and as a result it had no significant impact on contemporary indigenous farming. For this reason no credit can be assigned to them for the evolution of commercial agriculture which eventually occured in the country.[5]

Concerning Britain, her activities in the country were dictated by her interests in her West Indian Possessions. Until she made Ghana her possession through annexation, Britain undertook no ventures in the country [that might have an adverse effect] on the economic development of her West Indian possessions. The policy and its effect on the country were commented upon by the African Committee:

> "It is lamentable but certain fact that Africa has hitherto been sacrificed to our West Indian colonies. Her commerce has been confined to a trade which seemed to preclude all advancement in civilisation. Her cultivators have been sold to labour on lands not their own; while all endeavours to promote cultivation and improvement in agriculture have been discouraged by the Government of this country, lest here products should interfere with those of our more favoured colonies.[6]

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5. As the local farmers had no knowledge of world conditions and of the techniques of growing the exotic crops they could not have shifted from subsistance farming to commercial agriculture, even if they had wanted.
6. See - Document 16, The African Committee to the Lords of the Treasury - in C.E. Metcalfe, Great Britain and Ghana, Documents of Ghana History, 1807 - 1957, London, 1964

The economic policies pursued by Britain when she became the only European power left in the country after the departure of the Danes[7] in 1850 and the Dutch in 1872 merit attention.

Unlike the Dutch and the Danes there is no evidence to show that the British made any resolute attempt to establish plantations in the country. Their assiduity in this direction eventually led to the clearance of one acre of land for the cultivation of cotton and vegetables.[8] The agricultural practices of the local people in the areas of British influence cannot therefore be said to have undergone any marked change since the advent of British to the coast. The attitude adopted by the British traders on the coast was most probably influenced by the discriminatory tariff policy being pursued by the British government at home. This policy made it more costly for buyers to import African produce into Britain, if similar produce could be obtained from the British West Indies.[9] Until 1874 Britain had no sovereignty over Ghana whilst the West Indies were for a long time before then her possessions.

The outcome of Britain's trade policy, which tended to favour West Indian exports as against those of West Africa was that the British traders in Ghana were obliged to confine their purchases to commodities that had no West Indian equivalents or substitutes. In these circumstances, after the abolition of the slave trade the local people had not much besides gold to exchange in trade with the foreign merchants. Even the little that could

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7. The Danes introduced plantation agriculture in the eastern part of the country, especially in the Akwapim district and took to the growing of coffee, cotton, and tobacco; they also embarked upon instructing the local people in the art of husbandry. See, K.B. Dickson op.cit. pp.118-132.

8. loc. cit.
9. See, Dr. R.R. Madden's "Report on the Gold Coast" written in 1841 reproduced as Document 132 in G.E. Metaclfe op.cit. In his report Dr. Madden wrote "So long, however, as African coffee pays a duty of 1s.3d. per pound while West India is introduced at 6d. there can be no hope of this cultivation .... being prosecuted at all in Africa..." Some individual British merchants made attempts to grow commercial crops (e.g. Mr. Swanzy's near Cape Coast), but their efforts were frustrated by the ~~xxxx~~ tariff policy of the British Government. See also Kwamina B. Dickson op.cit. p.126 for reference to the fears expressed by a British Governor of the threat which the success of the Dutch cultivation of sugarcane in Ghana might pose to the British sugar plantations in the Carribean.

be offered by the local people were products that were collected from the primeval forest - first palm oil from around the second decade of the nineteenth century[10] and some time later palm kernels. Rubber made its appearance as an export item of some significance during the 1880s.[11]

From the above account some observations can be made. First, the British showed little interest in agricultural development in Ghana during the period under review because the trade policies being pursued by their home government in favour of crop cultivation in its West Indian possessions did not favour a similar development in Ghana and second, following the abolition of the slave trade the economic activity of many parts of the coastal areas became stagnant as of necessity it became based on purely extractive industries, especially the collection of what grew wild in the forest and which also the Carribean islands were not producing, in this instance the oil palm[12] and wild rubber.

(b) Agriculture after the annexation of Ghana by Britain - The agricultural potential of the country began to be seriously exploited by the local people when the cocoa industry was introduced in the 1880s.[13] The successful establishment of this new industry soon set the economy of the country on a vigorous course of expansion. The industry was initiated by the local people and for some time under the criticism of the Department of Agriculture.[14]

Cocoa made its first appearance among the country's merchandise exports in 1891 and quickly displaced rubber in 1906 as the country's leading export item. In that year it accounted for 18 per cent of the value of the country's total exports and four years later 30 per cent.

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10. See - H.J. Bell, History, Trade, Resources and Present Condition of the Gold Coast Settlement, (Liverpool, 1893), p.37

11. Rubber plantations were later set up in some parts of the country but they were on a limited scale. Rubber as a merchandise export started to acquire importance towards the close of the nineteenth century.

12. In the south-eastern part of the country, however, the local people set up oil palm plantations, but these areas were outside the territorial stretches over which the British had established commercial influence.

13. The cultivated crops in the areas of British settlement were for the use of the local people. Of these only limited quantities were exported.

14. See - Polly Hill Migrant Cocoa Farmers of Southern Ghana, (C.U.P. 1964), pp.173-176) See also R.M. Green and S.E. Hymer, Cocoa in the exports, Journal of Economics History, XXVI, September, 1966, No.3 ?

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As a result of the phenomenal development of the cocoa industry, Ghana's gross domestic product underwent an unprecendented expansion. According to one estimate, from 1891 to 1911 it increased by 75 per cent in real terms, and this was equivalent to an annual compound growth rate of 2.8 per cent. Excluding traditional consumption, the rate of growth for the same period was 7.6 per cent per annum. In absolute terms the GDP including traditional activity and estimated in current prices, increased from £8.2 million in 1891 to £10.2 million in 1901 and thence to £19.5 million in 1911.[15]

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The great expansion in economic activity was best reflected in the country's external trade returns. While in and before 1891 the value of either imports or exports was less than £1.0 million per year, after the turn of the century, however, they showed great increases.

By 1911 the value of both exports and imports had exceeded £3.0 million and in subsequent years the rate of increase became even greater as is shown in Table 1.2.

Table 1.2 GHANA'S TRADE AND REVENUE: SELECTED YEARS FOR PERIOD 1875 TO 1951

Year	Imports £	Exports £	Revenue £
1875	364,674	327,012	76,368
1891	665,781	684,305	186,021
1911	3,784,260	3,792,454	1,111,632
1931	4,803,874	9,300,620	2,284,299
1941	6,268,606	13,548,409	4,141,186
1946	12,633,612	19,616,874	7,567,589
1948	31,378,050	56,144,722	11,639,342
1950	48,128,966	77,406,944	20,861,032
1951	63,793,420	91,990,397	30,764,463

Source: The colonial office list, reproduced in G.E. Metcalfe op.cit. Appendix D, pp.750-2.

15. See, R. Szoroszowski, Structural Changes in the Economy of Ghana, 1891 to 1911, Weidenfeld and Nicolson, (London 1965), p.27. The author's estimates of the Ghana GDP for the period, the only one yet attempted were calculated by using the same techniques by the Ghana Bureau of Statistics.

The phenomenal expansion of domestic output based primarily on increasing cocoa production caused the economy to be rapidly transferred into a monoculture. This feature of the economy led Governor Guggisberg in 1919 to put the following question to the Legislative Council:

> "We have all our eggs in one basket. The cocoa baskets are full - what about the other baskets if anything goes wrong with the cocoa crop or the cocoa market ? 16

A further characteristic was imparted to the economy by the thriving new industry on account of its external orientation. The expanding export sector gave rise to an export-led economic development in many parts of the country and this in turn resulted in significant increases in the country's GDP. In view of the existence of a sizable traditional sector within the economy the rate of expansion of the export sector happened to be far greater than that of the GDP, with the result that the export sector expressed as a proportion of the GDP rose from 8 per cent in 1891 to 19 per cent in 1911. Similarly, the value of the import sector inclusive of non-factor services over the same period and on the same basis of calculation, rose from 9 per cent in 1891 to 18 per cent in 1901, but then dropped to 10 per cent in 1911.[17]

It can thus be said that the development of the cocoa industry made the country's external sector too "open" and highly vulnerable to external economic influences. By 1951 the openess of the economy had become more pronounced; as shown in Table 1.3 the value of the exports of goods and non-factor services was 38.6 per cent of the GDP; imports of goods and non-factor services amounted to 28.0 per cent of GDP.

One of the country's other commodities of trade worth mentioning is timber. When logging could be carried out either near the ports or

16. Ghana afterwards became increasingly dependent on cocoa for earning its foreign exchange. See R.H. Green, The Ghana Cocoa Industry: An Examination of Some Current Problems, Economic Bulletin of Ghana, Vol.5, No.1 (May, 1961).

17. See - R. Szereszewski, op.cit. p.27

close to river mouths, timber assumed some significance as an export item before 1800, but depletion of forests containing suitable timber in the then accessible areas led to a decline in quantities exported. Advances in technology and the spread of British influence into the interior towards the close of the nineteenth century, however, resulted in the exploitation of new sources of supply and consequently in the revival of the timber trade. Since the industry as carried out in Ghana has been essentially a "robber" industry, as it does not incorporate the practice of re-afforestation, the constraints of nature on output are always potent and the future prospects of the industry uncertain. However, during the period immediately following the second world war it was in the timber industry that the greatest expansion in production took place. With regard to shipment abroad, it was able to increase during the period 1945-50 when its volume of exports increased by over three and a half times (i.e. from 2,692,051 cubic ft. in 1945 to 10,162,837 cub. ft. in 1950).[18]

Table 1.3 GHANA EXPENDITURE ON GROSS NATIONAL PRODUCT 1951

Million £ at current market prices

			Percentage of GDP
1.	Private consumption expenditure	188.3	76.1
2.	General Government consumption	10.5	4.2
3.	Gross fixed capital formation	20.9	8.4
4.	Increase in stocks[1]	1.6	0.7
5.	Exports of goods & services[2]	95.6	38.6
6.	Imports of goods & services[2]	69.3	28.0
7.	Expenditure on gross domestic product.	247.6	100.0
8.	Net factor income from abroad	-6.7	
9.	Expenditure on Gross National product.	240.9	

Notes: 1. Changes in export stocks and stocks of imported goods only.
2. Includes current transfers from (and to) the rest of the world.

Source: U.N. Yearbook of National Accounts Statistics, New York, 1958

18. See H.M.S.O. An Economic Survey of the Colonial Territories, 1951 Vol. III, Colonial No.281-3, 1952, Table on p.30

(c) Mining - After the annexation of the southern part of the country by the British in 1874, a large number of companies were registered in the United Kingdom for the purpose of carrying out gold mining in Ghana. The number registered rose from below 10 in 1881 to over 200 in 1900. Very few of these eventually operated in the country because in 1904 only 13 could report gold production.[19] Interest in gold mining in the country was greatly aroused when some experts from the Transvaal reported in 1897 that the reefs in the southern part of the country were similar to and of equal or higher grade than the Rand deposits. The famous "Jungle Boom" ensued and in order to satisfy British mining interests the colonial government constructed the country's first railway line from Sekondi to Tarkwa, a distance of about sixty miles, to gain easy access to some of the reefs from the coast.[20]

Of all the products that could be obtained from the country, it is gold that attracted the British most and once the mining industry with the most up-to-date technology had been introduced into the country the colonial government gave it a great deal of support.

Output of gold was below 100,000 fine ounce per year before 1905 but from then on it rose steadily until it reached a production peak in 1915. In that year 462,000 fine ounces were exported. After a decline for some years export rose to 858,000 fine ounces in 1940 and the figure for 1951 was 692,000 fine ounces.

Besides gold, mining is carried on for manganese, of which exports began in 1916, diamonds, which were first discovered in the country in 1919 and bauxite which is worked on an extremely limited scale.

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19. See - S.H. Frankel, Capital Investment in Africa, C.U.P. London, 1938 pp. 162-163. The companies were registered for operation in Ghana as well as along the rest of the West Coast..

20. Solomon D. Neuwark, Foreign Trade and Economic Development in Africa A Historical Perspective, (Food Research Institute, Standford University C. 1964), p.96

(d) Manufacturing – By 1951 the country had very little manufacturing activity to boast of. Table 1.4 provides the only available official information on industrial development over the period indicated in the table.

Table 1.4 YEAR OF COMMENCEMENT OF OPERATION FOR INDUSTRIAL ESTABLISHMENTS RECORDED IN 1959

Year	Number
Before 1909	11
1909 – 1919	3
1920 – 1929	19
1930 – 1939	18
1940 – 1949	53
1950 – 1959	130
Total	234

Source: Industrial Statistics, 1958-1959, by Central Bureau of Statistics, Accra, 1962, p.55

Unfortunately, the data as provided in the Industrial Statistics, 1958-59 are too aggregative and thereby provide no information concerning the relative proportion of the major components that comprise industrial establishments: mining and quarrying, manufacturing, electricity, etc. For somewhat detailed account of the industrial state we shall have to turn elsewhere. THE ANNUAL REPORTS OF THE GOLD COAST provide some useful information. With regard to manufacturing the 1946 issue[21] states that production by large scale techniques had not yet begun in the country, though one firm had started the construction at Takoradi of a cocoa butter factory which would be capable of producing 500 tons of cocoa butter per annum. The Report also mentions the work of the Industrial Development Board which was set up in 1945 to foster the development of local industries. Among the activities undertaken can be cited the training

21. Printed by the Government Printing Department, Accra, 1947, p.45.

of carpenters to produce high class furniture and the organisation of the
7vT ? local weaving industry in the Togo Region on a business footing. The manufacturing of limited quantities of soap, principally by expatriates, is also mentioned.

The 1948 Annual Report[22] mentioned the establishment of the Industrial Development Corporation on 1st May, 1948 and also indicated that it had either sponsored or financially assisted the following: furniture making and the training of cabinet makers, sawmilling, brick and tiles making, weaving, printing, hat making, cassava processing and soap making. In all cases the enterprises were owned by Africans.

The lack of data in the Reports on the number of producing units in the various activities mentioned in them and the related outputs deprives them of much value for analytical and comparative study. However, when the information that is provided is used in conjunction with the data in Table 1.4 some useful conclusions can be drawn.

From what has been recounted earlier on it appears that many of the 11 industrial establishments started before 1909 were most likely mining enterprises. An idea of the enterprises actually engaged in manufacturing at that time is provided by Szereszewski,[23] the evidence he obtained indicated that by 1904 there were already in existence in Ghana a mineral water plant in Cape Coast, a brick and tile factory and a sawmill in the Sekondi area and a workshop at Ada for repair and conversion of river launches (ferries).[24]

Of the 104 industrial establishments that were in operation by 1949 slightly over half the number were set up during the period 1940 to 1949. When note is taken of the fact that the second world war broke out in 1939 one can safely attribute the proliferation of industrial establishment during the 1940s partly to the shortages of manufactured goods that were experienced

22. Printed by the Government Printing Dept. Accra, 1949, p.35

23. Robert Szereszewski, op.cit. p.63

24. Handicraft activities involving metal working pottery, cloth making etc. had been practised in Ghana for several centuries in all sizeable villages by a small percentage of the people. Goldsmithing has a long tradition, see - K.B. Dickson, op.cit. pp.89-95.

in the country during the war time. The reasoning is supported by the mention in the 1946 ANNUAL REPORT OF THE GOLD COAST of the existence in the country of a soap making industry on a small scale. The development was in essence an import substitution industrialisation.[25]

The other contributory factor to the rapid increase in the growth of industrial establishments during the period was the creation by the Government of the Industrial Development Corporation (IDC) in 1947. By making loans available to enterprises owned by Ghanaians, it directly or indirectly caused the formation of a few manufacturing firms.[26] The percentage contribution of the manufacturing sector to the country's gross domestic product in 1951 cannot be accurately established as no data on national production were then being collected. The best guide to it is to use the estimates provided in the (see Table 1.5) Walters Report and from it can be easily inferred to be very small. The "other recorded private industries" refers to the myriad of handicraft activities found throughout the country and their appreciable percentage contribution to the country's GDP testifies not only to their significance in the economy but also to the latter's rudimentary state of development. The figures for 1955 and 1956 can help give us an idea of what the situation was in 1951.

(v) <u>General Features of the Ghanaian Economy 1951</u> - In 1951 Ghana was predominantly agricultural; however, in comparison with other African countries at that time it enjoyed a higher standard of living. As shown in Table 1.6 its per capita income was then estimated at about $45.00 and this attainment was attributed by some to the fact that the transformation of its subsistence sector into an exchange economy was at a more advanced stage than it was in the

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25. A.O. Hirschman in The Political Economy of Import Substituting Industrialisation in Latin America, <u>Quarterly Journal of Economics</u>, Feb.1968 gives four reasons for the adoption of Import Substituting Industrialisation by less developed countries and one of them in shortages of manufactured goods arising from the termination or reduction of supplies, from traditional sources as a result of the suppliers' involvement in war.

26. The Industrial Development Corporation was created by an Ordinance in 1947 but its actual establishment might have been delayed until 1948. For more about the IDC see Chapter 5.

other African countries.[27]

Unfortunately the comparatively high standard of living was attained through a heavy dependence on the cultivation of one export crop, cocoa, and so the economy consequently developed into a monoculture. Another unhappy outcome was the increasing inability of the agricultural sector to grow enough food to satisfy domestic consumption as the commercialisation of farming for the export trade developed.

Table 1.5 INDUSTRIAL ORIGIN OF THE GROSS DOMESTIC PRODUCT 1955 AND 1956

	Sector	1955		1956	
		£G million	%	£G million	%
1.	Cocoa	44	12.4	53	14.1
2.	Agricultural production & distribution including agric. exports	119	33.5	125	33.2
3.	Forestry & Saw-milling	16	4.5	18	4.8
4.	Mining	16	4.5	17	4.5
5.	Manufacturing	3	0.8	4	1.1
6.	Other recorded private industries	58	16.3	62	16.5
7.	Net rent, personal & household services	32	9.0	35	9.3
8.	Govt. enterprises & public corporations	5	1.4	6	1.6
9.	General government	18	5.1	19	5.1
10.	Residual item	44	12.4	37	9.8
	Gross domestic product at constant (1960) prices	355	100.0	376	100.0

Source: Walters Report, excerpted from The Economy of Ghana by W. Birmingham et.al. Allen & Urwin, London, 1966, p.56.

27. See U.N. Department of Economic Affairs, Enlargement of Exchange Economy in Tropical Africa, New York, 1956

As Frankel puts it:

> "A problem of importance in /Ghana/ is that of further developing the production of food crops for local consumption.... The development of the main export crops has, in the past, been at the expense of the production of products which are a necessary part of an adequate diet for the population. /Ghana/ still imports much rice and even tinned foods for native consumption." 28

Though agriculture was the most widespread economic activity, the colonial Government gave it far less attention than it did to mining. To be fair, mention must be made of attempts made in the 1920s to diversify the agricultural sector /through the establishment of a variety of crop plantations/ but the projects were all brought to a premature end by the depression of the '30s.[29]

Table 1.6 ESTIMATED MONEY INCOME OF THE INDIGENOUS AGRICULTURAL ECONOMIES OF AFRICA 1950

Territory (1)	Income from sale of produce (2)	Wages of Migrant Labour (3)	Total Money Income (4)	Population (million) (5)	Per capita Money Income($) (6)
	Millions of US. Dollars				
Belgian Congo	75	94	169	11.3	15
French Eq. Africa	16	20	36	6.4	6
French West Africa	186	25	211	17.1	12
GOLD COAST (GHANA)	170	22	192	4.3	45
Kenya	12	33	45	5.3	8
Nigeria	345	33	378	30.0	13
N. Rhodesia	1	20	21	1.6	13
S. Rhodesia	6	22	28	1.7	16
Tanganyika	34	33	67	7.4	9
Uganda	51	11	62	4.9	13

Sources: U.N. Enlargement of the Exchange Economy in Tropical Africa, New York, 1954, p.26.

28. S.H. Frankel op.cit. pp. 324-325, See also Ormsby-Gore's Report op.cit. p.139

29. The plantations were for sisal, copra, oil plam, rice and kola.

In spite of this effort, however, the general attitude of the Government towards the sector and the overall performance of its Department of Agriculture during the colonial days are best described in the words of the Watson Commission of 1948.

> "/Ghana/ has never been provided with the machinery in the form of staff, buildings and experimental stations to provide for the basic needs of its agriculture.
>
> Ample evidence is available to confirm this view; firstly, in the small annual expenditure, over a period of many years, on agriculture relative to the revenue of the country and to the value of the agricultural exports; secondly in the almost complete disregard of agriculture in the more advanced stages of education and in the award of scholarships for study abroad; and thirdly in the lack of interest in technical problems shown by many members of the Administration." 30

Outside the agricultural sector one thing worth mentioning is production of power. In 1951 electricity production in the country was wholly by thermal process based mostly on imported oil. The total generating capacity was less than 50,000 kw. of which about two-thirds was owned by the mining companies and the total contrasted sharply with the country's hydro-electric potential of over 1,000,000 kw.

In Table 1.3 the country's export and import sectors in 1951 are shown both in absolute value terms and as percentage of gross domestic product. Both sectors had then become very "open" - with exports at 38.6 per cent and imports at 28.0 per cent of GDP. Table 1.7 shows the extent of changes in the composition of exports and imports at two periods in time, 1913 and 1953.

At least three things are worth noting about the composition of imports and exports. Whereas, exports were made up of a few items, imports on the other hand were composed of a much wider variety of goods. Secondly, the proportion of exports that was made up of food, mostly cocoa, was exceedingly high, nearly 82 per cent in 1953. Thirdly, food items also accounted for an appreciable

and 1913 proportion of the 1953 imports, a fact which confirms the remarks of Frankel quoted above.

30. Report of the Commission of Enquiry into disturbances in the Gold Coast, 1948, Colonial Office, London, 1948, paragraphs, 324-25.

Table 1.7 COMPOSITION OF IMPORTS AND EXPORTS OF THE GOLD COAST 1913 AND 1953

Item	Percentage of Total Exports		Percentage of Total Imports	
	1913	1953	1913	1953
Food	76.2	81.9	29.9	21.2
Agricultural materials	23.8	7.3	1.9	0.3
Minerals	-	6.3	5.6	6.6
Metals	-	-	3.7	9.7
Chemicals	-	-	4.9	6.3
Machinery	-	-	11.0	17.4
Textiles	-	-	28.2	24.2
Other Manufacturers	-	4.5	14.8	14.3

Definitions:

Food = SITC 0,1 and 4

Agric. Mat = SITC 2(excluding 27 and 28)

Minerals = SITC 27, 28, and 3

Metals = SITC 68, and 69

Machinery = SITC 7

Textiles = SITC 65 and 84

Other manufacturers = SITC other 6 and other 8

Source: P. Lamartine Yates, Forty Years of Foreign Trade Allen & Unwin, 1959, pp. 250-251

CHAPTER 2

THE ORIGINS OF THE IDEAS THAT INFLUENCED THE 1951-66 ECONOMIC POLICIES

(i) Economic Objectives of the Fante Confederation and the Aborigines' Right Protection Society.

The aspirations and the consequent policy objectives that determined the direction and tempo of economic development in independent Ghana, especially during the Nkrumah era, had their origins in the events that took place in the country during the latter half of the nineteenth century.

In 1868 the leaders of some of the tribes of southern Ghana made a tentative attempt to establish a Confederation which had among its objectives the economic development of the area. Three years later the representatives of the Confederation met again and this time they drew up an elaborate constitution for the creation of a united and progressive state. Of some interest is the fact that one article in the constitution was devoted to governmental functions that would deal with economic and social reconstruction.[1]

About the time the Fante Confederation was being formed there were taking place in Japan the Meiji reforms which followed the overthrow of the Tokugawa Shogunate by the Samurai. This more or less simultaneous occurance and the fact that the objectives were for modernization turned out later to be points of great significance to nationalist politicians.

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1. Article 8 of the constitution dealt mainly with economic development and the following are some of its sections:
"Section 3 - To make good and substantial roads throughout the interior districts included in the Confederation.

Section 4 - To erect school houses and establish schools for the education of all children within the Confederation, and to obtain the services of efficient School masters.

Section 5 - To promote agricultural and industrial pursuits and to endeavour to introduce such new plants as may hereafter become sources of profitable commerce to the country.

Section 6 - To develop and facilitate the working of the mineral and other resources of the country." Quoted in George Padmore, Africa: Britain's Third Empire, Dennis Dobson Ltd, London, 1949, p.194

The reaction of the British when they were duly informed of the formation of the Fante Confederation was to ban the organization.

The Aborigines' Rights Protection Society was formed to replace the Confederation and its primary objective was to use constitutional means to preserve national institutions and rights to property against the encroachment of British rule once it had to be accepted that dejure southern Ghana had become a colony. The Society at first devoted itself to political issues by making protests to the British Home Governments against enactments that were considered to result in either the disintegration or the impoverishment of the local communities.[2] When the society was outclassed in diplomacy by the British, some of its members took to educating the people, especially the literate among the younger generation, about their birthright and the opportunities to economic advancement which they had lost as a result of the imposition of British rule.[3] The industrial achievements of Japan since the beginning of the Meiji era were often cited by the members of the Aborigines' Rights Protection Society as an instance of what Ghana too could have achieved had the formation of the Fante Confederation not been nipped in the bud by the British.[4] This was how a politically free Ghana's possible economic attainments were propagated in the '20s and '30s of this century.

The account given so far properly belongs to the realm of political history, yet the events described form the fundamental factors that have

2. On three different occasions the Society sent delegations to Britain to petition to the Colonial Secretary about Bills which were found unacceptable by the people. The first two missions, that of 1897 against the Lands Bill and that of 1911 against the Forest Bill, were successful. The underlying fear was appropriation by foreign capitalism.

3. The writer remembers a talk given by a member of the Aborigines' Rights Protection Society to his school in the '30s; the talk centered on British imperialism and the aims and objectives of the banned Fante Confederation.

4. It is doubtful whether the Fante Confederacy would have achieved the same results within the same space of time as Japan did, because the latter was socially more integrated and economically more advanced than Ghana. Some modern research findings indicate that the achievements of Meiji reforms were not as outstanding as they were formally thought to be for the simple reason that considerable progress is now believed to have taken place in Tokugawa Japan. See G.C. Allen, A Short Economic History of Modern Japan London, 1972. p.14

motivated Ghanaians to clamour for political independence and to orient their economic development programmes towards the goals they have chosen. Failure to recognise them as the sources from which were derived the conventional wisdom prevalent in Ghana in the twilight period of British colonial rule about the accepted goals and pattern of economic development has led some foreign writers to make comments on economic development programmes in independent Ghana that are either simplistic or superficial. As Keynes put it

> "madmen in authority, when they hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back." 5

But it was not from any academic scribbler that the indigenous politicians who assumed the reins of government in Ghana from 1951 onwards got their ideas about what to do in the matter of development once their country had obtained political independence; their ideas were rather distilled from the last surviving members of the Aborigines' Rights Protection Society; and to them the fulfilment of such ideas was not a visionary hope but something real and achievable.

When in 1948 the Watson Commission[6] was sent to Ghana by the British Colonial Secretary to investigate the disturbances that had taken place there most of the petitions that were submitted to them centred on economic matters which indigenous politicians had been talking about in their campaigns for a greater measure of political autonomy and economic improvement and the industrialisation of the country.[7] When ultimately political independence was attained by the country the conventional wisdom relating to such topics

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5. J.M. Keynes, The General Theory of Employment, Interest and Money", Macmillan & Co. Ltd. London, 1936, p.383

6. Report of the Commission of Enquiry into Disturbances in the Gold Coast, 1948, Colonial No.231, Colonial Office, London, 1948: hereinafter the Report will be referred to as the Watson Report and the Commission as the Watson Commission.

7. See Watson Report, op.cit. para.178-259, 298-316, and 321-336.

constituted the bedrock on which were based the economic policies that were pursued for many years. The party in power for most of the period 1951-72 was the Convention People's Party whose views on many aspects of national life were in consonance with those of its leader, Dr. Kwame Nkrumah[8] who has enunciated them in some of his writings. Primarily because of the effect such views had on the determination of the Governments' policy instruments and objectives, a selection of Nkrumah's observations on a variety of subjects is provided below.

(ii) The views that influenced the policy makers

The observations of Dr. Kwame Nkrumah on economic issues in some of his ? writings were views that were endorsed generality of his party colleagues. They are significant in that they provide us not only with a knowledge of the political and economic motivations of those who later assumed the reins of government but also with a basis by which to ascertain on the one hand, the dimensions of achievement and failure where policies were promoted and on the other, the areas of neglect where no action was taken to effect a change.

(a) Agriculture - The diversification of the country's agricultural sector had been considered by many as a highly desirable thing. In his reference to the predominantly single-crop characteristic of the sector Nkrumah rather pinpoints its inadequacies. As he put it:

> "under the British there was no poultry farming to speak of; there was no proper dairy farming, and the ordinary Gold Coast family never saw a glass of fresh milk in its life. There was no raising of beef cattle. There were no industrial crops. Climate, plant and cattle disease are the least of the reasons for this deplorable neglect...."9

In Nkrumah's view scientific investigations in the country's agricultural sector was too limited and even under such circumstances the research findings remained mostly unapplied because the administrators who should have used them were either lethargic or "too uninterested to take action."[10]

8. Dr. Nkrumah became the Secretary to the United Gold Coast Convention, a body that was formed in the postwar period to continue the fight for political independence, but he subsequently broke with the Convention because he did not think its policies to be dynamic enough.

9. See, Kwame Nkrumah, "Africa must unite", op.cit. p.29

10. Ibid.

In Ghana though much was said about the diversification of agriculture in the colonial days very little was done by the Government to make it a reality. Like many Ghanaians Nkrumah expressed the view that:

> "Diversification of agriculture has been accepted as a shibboleth, but if the development [of agriculture] is simply towards the end of exportation, this can defeat the aim, since the fact that so many countries are now concentrating upon similar objectives can produce an over-extension of the sellers' market with subsequent depression of world prices." 11

But the importance of agriculture according to Nkrumah was recognised by the governments of African states that were concerned with raising the living standards of their people and for this reason had been increasing the investment they had been making in the sector. He, however, added that agricultural development alone was not enough because

> "to make agriculture yield more the aid of industrial output is needed; and the under-developed world cannot for ever be placed at the mercy of the more industrialised." 12

The submission here is that in the less developed countries of today the process of economic development has to involve both the industrial and agricultural sectors at each stage of growth. This is the broad inter-sectoral type of balanced growth espoused by Prof. Arthur Lewis.[13] Nkrumah rejected the advocacy of those "who urge the less developed countries to concentrate on agriculture and leave industrialisation for some later time when their population shall be well fed".[14]

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11. Ibid. p.109

12. Kwame Nkrumah, Neo-colonialism: the Last Stages of Imperialism Thomas Nelson, London, 1965, p.7

13. See, W.A. Lewis, The Theory of Economic Growth, Allen and Union Ltd. London, 1955 pp.141, 276-83, See, W. Elkan, Development Economics Penguin Books, Ltd. 1973, pp. 78-84, for comments on "balanced growth. See also, H. Myint, The Economics of the Developing Countries Hutchinson University Library, London, 1967, p.128.

14. Kwame Nkrumah, Neo-colonialism, op.cit. p.7

His reason was that this would create a dependence that

> "must slow the rate of increase in [the LDC's] agriculture and make it subservient to the demands of the industrial producers."[15]

Another reason for rejecting this type of development is that pattern of trade (described below) that emerged from regional specialisation of production was considered by many in the less developed countries to be unfavourable from the standpoint of the growth of their economies.

(b) Trade links and International Commerce - The view was widespread among Ghanaians that the trade policy being pursued by the metropolitan power, Britain, was to further her interests. In the promotion of this policy, direct contact between Ghana and other foreign countries was prevented. In Nkrumah's words:

> "Under colonial rule, a country has very restricted economic links with other countries. Its natural resources are developed only in so far as they serve the interests of the colonial power."[16]

With specific reference to Ghana he wrote:

> "In the past, all Ghana's economic links were with the West mainly the United Kingdom." 17

Trade links were said to have produced a two-way traffic held to be implicit in colonial trade. As described by Nkrumah the essential features of this traffic is the shipment to the metropole of the raw materials discovered in the colonies with the object of feeding "the metropolitan mills and plants" and their exportation back to the colonies at a later time "in the form of finished commodities."[18] But as far as her African colonies were concerned

15. Ibid. This view together with that on the diversification of agriculture for the benefit of the local people shows that Nkrumah did not think much of the theory of comparative advantage and the gains from trade that ultimately gives rise to a monoculture economy. In his recent book, Development Economics in Action: A study of Economic Policies in Ghana, Heineman's Education, London, 1978 passim, Tony Killick, in criticising development policies in Ghana that appeared to veer from the theory of comparative advantage, seems to be oblivious of Nkrumah's reasons.

16. Kwame Nkrumah, Africa Must Unite, op.cit. pp.107-8

17. Ibid. p.108

18. Ibid. p.22

"Britain controlled the export of raw materials by preventing their direct shipment to foreign markets. After satisfying, the demands of her home industries, she [would sell] the surplus to other nations and [net] the profits herself." 19

One aspect of external trade which produced much resentment among Ghanaians was the exercise of monopolistic control by European firms over both the import and export activities of the country. This control was achieved through the creation of mergers by the principal foreign firms[20] and in the process all the indigeneous merchants operating in the external sector were utterly ruined. The event is still green in the memory of many Ghanaians who, even though the formation of the trading combines by the European firms may be regarded by some as a great commercial undertaking worthy of praise, considered the re-organisation of the foreign trading intermediaries as the creation of a machinery for the exploitation of the indigenous people.

This characteristic of Ghana's foreign trade and the policy measures it called for were described by Nkrumah as follows:

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19. Ibid. pp.22-23. **Two examples can be cited to support this contention.** As a result of a recommendation made by a Committee appointed by the British Colonial Secretary during the first world war with regard to Britain's decision to develop a kernel-crushing industry, the colonial government in Ghana drafted a Palm Kernels Export Duty Bill which was strongly opposed by Ghanaians. The provisions of the Bill were in consonance with similar actions taken by other British colonies at that time and in essence they amounted to the introduction of a preferential duty of £2 per ton - to be increased if necessary - on all palm kernels to be exported to countries outside the British Empire. In Ghana it was realised that the enforcement of the Bill would deny Germany, the country's principal buyer of the product, the opportunity of making purchases on the same terms as Britain. The preferential duties on palm kernels were also mentioned in the final report of the Balfour Committee on Commercial and Industrial Policy; this body looked into the question of regulating Empire exports - See, David Kimble, A Political History of Ghana, 1850-1928, (Oxford, Clarendon Press, 1963), p.53.

during the war

20. See, Charles Wilson, The History of Unilever, (Cassell, London, 1954)., Vol.2, Part III. chapter 2. "The History of UAC to 1938" for an account of how the greatest merger on the West Coast of Africa was accomplished.

"Under colonial rule, foreign monopoly interests had our whole economy completely tied up to suit themselves."21 "The pattern of /their/ monopolistic control was firmly set in the first quarter of the present century, when the pioneering firms and our own African merchant princes, as they were called, were either forced out of business or absorbed by the giant companies."22

"We have had enough of European monopoly domination of our economy. We have emancipated ourselves politically, and we have now to shake off the economic monopoly that was the objectives of foreign political control. This is the crux of our economic policy and the essential heart of our endeavours."23

The dislike of the monopolistic practices of the foreign firms by the indigenous population was a fact not unknown to the firms themselves, though some of their top officials preferred to believe when resentment eventually became manifest in the form of widespread disturbances, that the unpopularity of the firms was fomented by some politicians. In his testimony to the Watson Commission, George Cole (later Lord Cole and Chairman of Unilever) stated:

"There can be no doubt that a political section of the community is directing a campaign against the white people and aims at turning them out."24

(c) Industrialisation for a higher standard of living

Industrialisation was a common talk among the educated in Ghana during the colonial days. As intimated already, people were made more and more aware during the 1930s of the intentions of the members of the Fante Confederation[25] in the latter half of the nineteenth century to set up industries in the country; however, it was not until the years immediately following the second world war that discussion about the necessity of industrialising the country

21. Kwame Nkrumah, Africa must unite, op.cit. p.26

22. Ibid.

23. Ibid. p.102. The monopoly of the firms has been said to be designed for exploitation, But Josephine F. Milburn in British Business and Ghanaian Independence (C. Hurst & Co. London, 1977) p.117 states that the firms as well as governmental controls exploited the economy during the period 1937-57. Furthermore she adds that after all things said and done, the investment of the British firms brought some benefits to the country.

24. Quoted in Josephine F. Milburn. op.cit. p.63

25. The Fante Confederation was found expedient by its organisers when it became known that the British Parliamentary Report of 1865 had recommended the withdrawal of British forces - hence British interest - from Ghana.

became widespread. Such discussions often became intertwined with the question of fighting for political independence. Opinion was at the early stages divided on which of the two was to be attained first: industrialisation or political independence; but later the majority came to the view that industrialisation had to be **preceded** by political sovereignty but the former had to be resolutely pursued soon after the attainment of the latter.

The 1951 General Election Manifesto of the Convention People's Party put the Party's view on this issue as follows:

> "The industrialisation of the country is one of the principal objectives of the Party, and under Dominion Status it will carry it out with all energy. Imperialism is incompatible with /the/ industrialisation of a colonial country. It is only under self-government that this country can be industrialised in the way it should. Under the industrialisation programme the Party envisages numerous manufacturing factories (e.g. canning, meat, electrical goods, building materials, machinery, cutlery, crockery, provision, hardware and textile plants), springing up in all parts of the country." 26

Ideas about the significance of the industrial sector in progressing economies put forward by academics in the western world,[27] and the views expressed by economic experts of the United Nations Organisation on the place of industrialisation in programmes of integrated economic development, especially in the less developed countries,[28] were popularised in the country. In specific terms the industrial sector was said to have generally higher relative incomes,[29] than the other sectors of an economy according to the findings of empirical studies of many countries; that the employment opportunities of the sector became greater as per capita incomes rose and that

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26. Quoted in G.E. Metcalfe op.cit. p.706. There is a striking affinity between the latter part of this exerpt and the statement Nkrumah made on industrial output in his speech to the Ghana Legislative Assembly about the Second Development Plan in March, 1959.

27. See Colin Clarke, The Conditions of Economic Progress, Macmillan, London, 1951.

28. U.N. Process and Problems of Industrialisation in underdeveloped countries, New York, 1954

29. "Relative income" is defined as the percentage of the net national product contributed by an industry divided by the industry's percentage share of the national labour force. See Colin Clarke op.cit. chap.10

resistance to the introduction of industrialisation programmes was likely to be offered by some international firms with established interest in the production and trade in traditional commodities because of the changes to the pattern of trade that might ensue. Furthermore, much discussion focussed on the part that the government should play in a society that had little or no manufacturing experience. It was generally held that in the circumstances it would have to play a more positive role not only in guiding investment programmes but also in initiating vital industrial projects which otherwise would not be undertaken by anyone.

The call for industrialisation became widespread and the Watson Commission put their impression of the demand of the local people in the following words:

> "At every turn we were pressed with the cry of industrialisation. We doubt very much if the authors of this cry really understood more than their vague desire for something that promised wealth and higher standards of life."[30]

It can be seen from the Watson Report that the demand for industrialisation concerned not only the establishment of secondary industries but that of heavy industry as well. Whereas the Commission felt that the latter must remain a dream for stated reasons[31] they nevertheless thought that there was "clearly room for many secondary industries which would enrich the country" and for which there was "considerable scope for bold planning on imaginative lines."[32]

Lack of industrialisation[33] was attributed or at least linked by some to the existing external trade pattern of the country. Certain sections of the

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30. The Watson Report, op.cit. para. 298

31. The reasons given were what was termed "an enervating climate in the torrid zone") lack of coal and other basic minerals, and doubtful prospects for establishing an export market for the products.

32. Watson Report, op.cit. para.301

33. In his testimony prepared for the Watson Commission George (later Lord) Cole of Unilever cite propaganda on the lack of industrialisation in Ghana as one of the cases of the 1948 disturbances. See Josephine Milburn.op.cit. page 63.

public felt that by turning Ghana into a dumping ground for manufactured British goods and a supplier of the needed inputs of raw materials the two-way traffic of trade was steadily consigning the country to economic backwardness. The Watson Commission in their Report did not consider that the country was so condemned,[34] but Nkrumah writing some years later nonetheless made it abundantly clear that he regarded those views as being actively advocated by some people; he expressed disagreement with them and went on to indicate the appropriate measures for the industrialisation that had to be taken:

> "There is an argument that contends that young nations emerging from colonialism are indulging in wasteful expenditure by duplicating industries and ventures which have already been perfected by the older industrialised nations of the world, whose products are available at lower cost than that for which they can be manufactured by us. It may be true in some instances that our local products cost more, though by no means all of them, and then only in the initial period. But even if it were substantially the fact, it is not an argument that we can accept. It is precisely because we were, under colonialism, made the dumping ground of other countries' manufactures and the providers merely of primary materials, that we remained backward; and if we were to refrain from buildings, for example, a soap factory simply because we might have to raise the price of soap to the community, we should be doing a disservice to the country." 35

This statement is all important as it reflects the essential factors that determined Nkrumah's industrialisation policy. In addition to those given in the above excerpt was his contention that every time Ghana imported goods for which all the conditions for domestic production were prevalent, the country was accordingly prolonging its economic dependence on the developed countries and also delaying its industrial growth.

It is apparent from the views expressed by Nkrumah that he did not think that weighty consideration ought to be given to what has since become known as <u>domestic resources cost</u>[36] when a country decides to embark upon an import

34. Watson Report op.cit. para.300
35. Kwame Nkrumah, Africa must unite, op.cit. pp.111-12
36. See Appendix F.
    That the consequences of the pursuit of an autarkic policy by a small country like Ghana was not given weighty consideration by Nkrumah.

substituting industrialisation. He was less concerned in this regard with the merits of the theory of comparative advantage than with the political satisfaction that could be derived from ceasing to be a dependent economy.

CHAPTER 3

EXTERNAL TRADE IN THE 'FIFTIES - STRUCTURE AND POLICY

A. CHARACTERISTICS OF THE EXTERNAL SECTOR

(i) Composition and Pattern of Export Commodities - In 1951 the economy of Ghana was structurally as predominantly agricultural as it had been at the beginning of the present century. However, on account of the transformation that had been taking place within the agricultural sector, with newly emerging export-oriented primary commodities displacing older ones, the economy started to manifest clear signs of buoyancy shortly before the country attained internal self-government in 1951. Economic activities undertaken with the object of satisfying increasing foreign market demand became more diversified and this increased the relative importance of the economy's exchange sector.

In terms of the composition and relative sizes of merchandise exports the characteristics which the export sector had acquired by 1951 and has since then retained are reflected in the figures given in Table 3.1. The figures convey quite clearly the dominance of cocoa in the sector. In fact, the share of the crop in the total annual export earnings of the country during the 'fifties never fell below 55 per cent and on the average was close to 60 per cent. Gold, diamond, manganese and timber came next in importance, though their individual contributions to total yearly export receipts were much smaller than that of cocoa. They ranged on the whole, between 5 and 15 per cent. It is worth nothing that the relative importance of these four commodities as contributors to the country's export earnings has kept on changing over the last few decades. The three mineral items have been fluctuating in importance, whilst timber (logs plus sawn) has steadily increased its proportionate contribution to total export earnings.

A consideration of Ghana's export sector is worth undertaking for at least two reasons. First, it will provide an understanding of the relationship between the sources and pattern of the external demand for the country's exports and the growth responses existing within the domestic economy and second, it

Table 3.1 PERCENTAGE DISTRIBUTION OF TOTAL VALUE OF GHANA EXPORTS 1951-60

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Cocoa beans	68.4	61.6	63.8	74.7	68.5	59.4	55.9	60.0	61.0	59.1
Cocoa paste	a	1.9	0.8	0.2	b	0.6	b	0.2	0.9	0.9
Cocoa powder	a	1.6	1.7	0.7	b	0.4	a	b	b	b
Timber (logs)	3.6	2.9	3.7	3.2	4.6	6.0	5.9	6.0	7.1	9.1
Timber (sawn)	2.0	2.3	2.9	2.7	3.8	5.0	5.0	4.6	4.7	4.8
Bauxite	b	0.1	0.2	0.2	0.2	0.4	0.5	0.2	0.3	0.5
Manganese	8.2	10.2	9.9	4.5	5.4	8.2	9.9	8.3	6.0	5.6
Diamond	6.4	6.1	4.5	3.8	5.8	9.2	9.9	8.3	7.7	8.6
Gold	9.4	11.1	10.8	8.7	9.5	8.7	10.8	10.2	9.9	9.7
Kola	0.6	0.5	0.4	0.2	0.2	0.3	0.2	0.4	0.7	1.0
Other	1.4	1.7	1.3	1.1	2.0	1.8	1.9	1.8	1.7	1.7
Total(c)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: "a" = Added to figure for "other"

"b" = Negligible

(c) = For absolute figures for yearly totals, see Appendix D1.

Source: Central Bureau of Statistics: Ghana Economic Surveys, Accra, various issues.

would throw a shaft of light on the results that are likely to attend the adoption and implementation by the country of trade policies which may be either global in nature or specifically adopted with respect to particular commodities.

(ii) Gains from trade

(a) Trade and Growth - The Robertsonian phrase "trade as an engine of growth" crystalises the fact that external trade provides the dynamism for the growth of an economy. Recently, however, I.B. Kravis has expressed disagreement with this view and in so doing has indicated that a country's growth is influenced not only by its internal structural conditions but also by its trade with the outside world. He makes his point by citing examples of countries whose trade expansion was not accompanied by any growth in their domestic economies. In his considered view trade is nothing more than a "handmaiden of growth."[1]

Prof. Kravis's contention can be paraphrasedby stating that trade is a necessary but not a sufficient condition for generating economic growth for the simple reason that the full benefits of trade cannot be derived by a country if favourable internal conditions are not in evidence. It, therefore, follows that no meaningful evaluation of the contribution to growth by a country's external sector can be undertaken without due consideration being given at the same time to its internal arrangements.

In the case of Ghana its economic development during the present century has been mainly attributed to its increasing participation in world trade. The extent to which it have been able to utilise the benefits derived from trade has depended upon the existence of favourable internal conditions. Two of these, for our present purpose, merit consideration. They are, first,

1. I.B. Kravis, Trade as the Handmaiden of growth: similarities between the nineteenth and twentieth centuries" Economic Journal December, 1970.

the type of ownership of the export oriented production units (whether the units are in indigenous hands or mequested by foreigners) and, second, the nature of the distribution among the people of the income accruing from external trade.

The export oriented economic activities of the country can, in general, be grouped into two, namely, agriculture (including forestry) and mining. The latter is mainly foreign owned and can be described as constituting an enclave in the economy of the country. Profits from the enterprises making up the mining industry have been mostly repatriated from the country. Fortunately, their contribution to the total export earnings has been on the average, below thirty per cent since the beginning of the '50s.

On the other hand, both the ownership and the operation of the export oriented agricultural activities have been mainly Ghanaian. On the average the activities of the agricultural sector have accounted for around 60 per cent of the annual earnings of the country since the end of the second world war. From the standpoint of international trade the most important agricultural activity is the cultivation of cocoa, a crop which has been described as the life blood of the country's economy, because, first, a substantial part of the cash income of a high proportion of the rural population is derived from it; second, the country's capacity to import foreign goods is greatly depended upon it and, third, the government's ability to mobilise resources for economic development is much affected by the prices it fetches on the world market.

(b) Cocoa and income distribution - On account of the unique position occupied by cocoa in Ghana's economy no analytical consideration of the country's trade and development will be complete without mentioning the principal socio-economic institutions associated with the crop. As shown in Table 3.1 the value of the annual export of cocoa beans constituted between 56 and 75 per cent of the country's total value of exports during the 1950s. In terms of gross domestic product it varied from 15 to around 22 per cent when estimated as averages on periodic basis as indicated in Table 3.2 below. The over-whelming dominance of cocoa in the country's economy has been a source of concern at times to some people. In the 1920s it led Sir Gordon Guggisberg, then Governor of Ghana to remark that the country was "putting all its economic eggs in one basket."

Table 3.2 GHANA COCOA EXPORTS AS A PERCENTAGE OF G.D.P.

¢'million

Period (1)	Average Annual G.D.P. (2)	Average Annual Cocoa Exports (3)	(3) as percentage of (2) (4)
1951-1953	507.1	112.6	22.2
1954-1056	679.6	134.1	19.7
1957-1960	827.2	124.1	15.0
1951-1960	686.9	123.6	18.0

Sources: UN Yearbook of National Accounts Statistics, various issues for GDP figures; Ghana Central Bureau of Statistics: External Trade Statistics 1935 - 1953, and Ghana Statistical Yearbook, various issues for data on cocoa.

Cocoa production in Ghana is carried out on farms the sizes of which vary from small plots of about an acre or two to large holdings of around a hundred acres. The ownership of the farms is entirely African and so is their operation. According to the 1960 population census of Ghana over half a million people are directly associated with the crop's cultivation. It is believed that the industry provides pretty nearly one half of the farming community of the country with their main source of income. It is for this reason that changes in producer prices offered by the Cocoa Marketing Board transmit palpitating throbs throughout the country's economy.[2]

The government relied heavily upon the proceeds from the sale of cocoa for the financing of a major part of the country's development projects.

2. The country's earnings from cocoa again reach the general public when the Government spends domestically part of what it collects from the Cocoa Marketing Board in the form of cocoa duty.

It was by means of such earnings that the imported inputs required for the development projects were paid for. The instrument which was and has since been used for appropriating a sizeable portion of the cocoa proceeds is the cocoa export duty. Though the duty was in existence in the halcyon days of the colonial period as a government revenue raiser it was not relied upon to the same extent as it was in subsequent years. With the advent of political independence the duty has become more progressive in structure and thus more exacting in the overall level of its levy. Though the yield may have become lucrative to the Government, there has been one serious effect and that is the sharp increase in the smuggling of the crop by farmers to the neighbouring francophone countries where producer prices are higher.[3]

Before 1951 the rate of the duty on cocoa was 10 per cent ad valorem plus a quarter of one per cent of every £1 (= ₵2.00) by which the value of the crop exceeded £160 per ton, with a maximum duty of 25 per cent. In subsequent years the structure of the duty was occassionally changed and the one in force during the early sixties was as follows.

> The first ₵240 of the f.o.b. price per ton is taxed at 10 per cent; any excess of that up to ₵520 per ton attracts a tax of 50 per cent, and any excess over ₵520 per ton is levied at 100 per cent.

On account of the progressive structure of the duty, whenever the price of cocoa rose on the world market, the yield accruing to the Government increased more than proportionately. This becomes evident from a comparison of columns (3) and (6) of Table 3.3. It will also be seen that before 1951 the yield from the duty was comparatively quite small, much below 10 per cent per annum.

3. It can be seen from the production figures in Table 3.3 that cocoa output increased in the sixties, so the theory concerning disincentive effect on production is not supported by available evidence. The writer's own experience supports the view that the level of output is being maintained but that smuggling is gaining economic proportions.

The collection of the duty is undertaken on behalf of the Government by the Cocoa Marketing Board.[4]

Table 3.3 ANNUAL PERCENTAGE DUTY ON COCOA EXPORTS

Crop Year (1)	Tonnage Exported '000 tons (2)	F.o.b. Value Per Ton (₵) (3)	Government Receipts from Export Duty (₵'m) (4)	Total f.o.b. Value (5)	(4) as % of (5) (6)
1947/48	208	402.4	0.8	83.0	0.9
1948/49	278	273.4	3.4	75.0	4.5
1949/50	248	356.8	7.0	90.2	7.8
1950/51	260	537.0	26.8	140.6	19.0
1951/52	211	490.2	29.4	103.2	28.6
1952/53	247	462.8	32.0	114.2	28.0
1953/54	211	717.4	68.1	149.4	45.6
1954/55	220	710.2	76.7	154.9	49.5
1955/56	229	443.6	29.2	104.7	27.9
1956/57	264	379.0	23.9	101.3	23.6
1957/58	206	608.6	52.5	125.7	41.8
1958/59	255	561.0	51.1	142.9	36.0
1959/60	317	545.6	47.6	172.9	27.5

Sources: Ghana Cocoa Marketing Board, Shipping Department, Accra Ghana Cocoa Marketing Board at Work, 1968 and Annual Reports and Accounts of the Ghana Cocoa Marketing Board.

With internal conditions being what they are trade has been instrumental in raising the gross product of the country. We can reiterate the views of Profs. Myint and Elkan, that trade has provided the country with a "vent" for a profitable utilization of its surplus resources.[5] With the production function of cocoa cultivation considered to involve only three variable factors, namely, land, labour and capital, and environmental conditions taken either as constant or exogenous factors, output becomes dependent on the use that is made of the cooperant variable factors as well as on the limitations that might be imposed on such use. In Ghana land suitable for cocoa cultivation was available in abundance towards the close of the nineteenth century and labour

4. See Arthur Hazlewood: Ghana's Finances, in Bankers Magazine, April, 1957 for the Government's relative dependence on cocoa for its revenue.

5. See H. Myint, An Interpretation of Economic Backwardness, in Oxford Economic Papers, June 1954 and Walter Elkan: Development Economics (Penguin, 1973) Chapter 3.

was both plentiful and generally not fully utilized. There were and have since been no serious constraints on local participation in economic activities and hindrances on geographical mobility of labour were pretty weak. With capital requirements for cocoa growing also proving to be minimal, once the possibility of cultivating the crop in the country had been demonstrated by a Ghanaian after his return from a sojourn abroad, the industry grew from small beginnings with phenomenal rapidity.[6] Export opportunities were indeed an essential element in the whole development in as much as the demand for almost the total output of the country's annual production has been entirely foreign based.

(iii) Basic features of the export sector _ Of late the features of the export trade has attracted much attention because of their impact on export instability. The instability has been studied with respect to commodity prices, export supplies and export proceeds and it is considered to have much effect on investment, on domestic stability and on growth.[7] Export instability has been attributed to certain features of the export trade and empirical investigations have tried to establish how far this is true.[8]

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6. Polly Hill, Migrant Cocoa Farmers of Southern Ghana, op.cit.

7. See, O. Knudsen and Andrew Parnes: Trade Instability and Economic Development, (D.C. Heath & Co., 1975), Chapter 3, 7-9.
It is worth noting here that, apart from the effects on investment earlier studies by Coppock, MacBean and others (see footnote 8) found positive relation - ship between export instability and domestic stability and growth. However, through the use of "permanent income theory and other hypothesis the evidence suggests that export instability has a positive effect on the economies of developing countries. Again the effect of export instability on growth has been examined by David Lim in "Export Instability and Economic Growth: A Return to fundamentals" Oxford Bulletin of Economics and Statistics, Vol.38, Nov., 1976, pp.311-322.

He disagrees with the findings of those who see no relation between export instability and growth. He finds only one study in which the estimating equation has been derived systematically, but even with this the specification is questionable. He concludes by stating "Our analysis shows that the results obtained with a theoretically sound formation are quite different from those obtained by using a theoretically weak one. The former shows that instability is detrimental to growth, while the latter shows that it is not."

8. Among the many studies can be cited the following: J.D. Cappock, International Economic Instability, McGraw-Hill, 1962; M.Michaely, Concentration in International Trade, (North Holland, 1962); B.F.Massel "Export Concentration and Export Earnings," in American Economic Review, March, 1964, pp.47-63 and "Export Instability and Economic Structure" in American Economic Review, Sept. 1970, pp.618-630; A.I.MacBean, Export Instability and Economic Development, (Allen & Unwin, 1966).

The factors which impart to the export trade their characteristic features are in some cases endogenous and thus come within the control of the policy makers of the exporting country. In such circumstances a knowledge of the factors which give rise to export instability is advantageous in that it helps policy makers to adopt appropriate measures to reduce the incidence and **severity** of export instability.

Among the features of the export trade to which trade instability are ascribed can be listed the following which will next be considered in some detail: the extent of domination of the export sector by food and/or raw materials; the degree of commodity concentration in export trade; the degree of geographic concentration; changes in the volume of supply of individual export items as well as changes in the foreign demand for them; the export market shares with respect to each item and the degree to which exported products are domestically consumed.

Table 3.4 MEASURES OF EXPORT CONCENTRATION IN GHANA AND SOME SELECTED COUNTRIES, 1959

Countries	C_3^a	C_1^b	P^c	G^d
Mauritius	.991	1.000	1.000	.847
GHANA	.704	.733	.911	.393
Burma	.691	.831	.961	.330
Malaya	.697	.784	.845	.347
Ceylon (Sri Lanka)	.649	.723	.985	.390
Nigeria	.439	.646	.982	.571
India	.280	.539	.565	.347

Notes. (a) C_3 = Commodity concentration based on SITC three digit commodity grouping.
(b) C_1 = Commodity concentration based on SITC one digit commodity grouping.
(c) P = Concentration of primary produce
(d) G = a measure of geographic concentration.

Source: B.F. Massell, "Export Concentration and Export Earnings," American Economic Review, March, 1964

(a) Primary product ratio - A country's export sector can be defined in terms of the relationship between the value of primary product exports and that of total exports. In this, primary products are defined in terms of all those goods which fall into the SITC 0-4 groups. The term used in this case for designating the sector is "primary product ratio." For purposes of trade policy formulation the term expresses a conceptual measure which is significant, as it is generally held that the susceptibility of primary products to output fluctuations is far greater than that of manufactured goods. Such fluctuations make the control of output a difficult exercise.

The concept is important for another reason. Recent experience has shown that demand by the industrialised countries for food and raw materials (excluding petroleum) originating from the LDCs has not expanded as rapidly as the overall expansion of international trade. With regard to world trade in food, some countries in the western world that have hitherto been traditional importers of certain food items from the LDCs have lately adopted a policy of self-sufficiency or one so approximate (e.g. European Economic Community) and this has adversely affected the exporting position of many LDCs.

In the case of raw materials, especially those derived from the agricultural sector, it is held by some that as a consequence of changes in the pattern of demand for industrial raw materials in the advanced countries there has occured a decline in the share of the LDCs primary products in the total inputs used by manufacturers in the industrialised countries. This development has been brought about by diverse factors among which can be mentioned the use of synthetics as substitutes for natural products which has been made possible by modern technological advances.

In addition to the points just raised are those which constitute what some refer to as the Singer-Prebisch theory of development.[9]

9. Some of the references for the Singer-Prebisch thesis are: Raul Prebisch and staff: Economic Development of Latin America and its Principal Problem, UN-ECLA (New York 1950); R.Prebisch: "Commercial Policy in the Underdeveloped Countries." American Economic Review, Papers and Proceedings, May 1959, pp.251 ff; H.W. Singer: "The Distribution of Gains Between Investing and Borrowing Countries, American Economic Review Papers and Proc., May, 1950, pp.473- ff.

The gist of the theory is that since the closing decades of the nineteenth century there appears to have been a decline in the barter terms of trade of primary commodities for manufactured products. Following from this, it is also contended that over the same period the barter terms of trade has been turning against countries whose exports consist mostly of primary product, vis-a-vis countries that are mostly exporters of manufactured goods.

One aspect of the Singer variant is that the gains resulting from the application of improved technology to agricultural production in the LDCs accrue more to the users in the industrialised countries when these products enter world trade.

The Singer-Prebisch thesis is regarded as highly controversial. Some are of the opinion that the data on which the various aspects of the thesis are based are unrepresentative and that the arguments on which their conclusions are derived are not vigorously formulated. However, as no one has been able so far to refute the core of the thesis, it might appear to contain some kernel of truth.

In a recent investigation by T. Wilson and others it was found that for the period 1950-65, though net factor payments abroad for some of the selected "developed" countries studied did not improve, they did not at the same time show any deterioration for some of the "developing" countries studied; in other words there was no uniformity of experience within each group. Nonetheless the net barter terms of trade for the developed countries as a group showed an improvement of 10 per cent over the period 1950-53 to 1962-65 whilst they deteriorated by 9 per cent over the same period for the group of developing countries.[10]

10. T. Wilson et. al: "The Income Terms of Trade of Developed and Developing Countries." Economic Journal, December, 1969, pp.813 ff. See also P.T. Ellsworth: "The terms of Trade between Primary Producing and Industrial Countries" printed in J. Livingstone's Economic Policy for Development (Penguin, 1971).

As is shown in Table 3.4 the "primary product ratio" of Ghana's export sector in 1959 was 0.911 according to Massell's calculation. As compared to the estimated figures for the selected developing countries shown in the table it was closer to the higher figures than to the lower ones.

It is worth noting that even though a country's "primary product ratio" may be high, the greater the diversification of products within the group the lower the degree of instability with regard to export proceeds. Massell[11] hypothesised that export diversification had the effect of reducing the correlation between fluctuations in receipts from different items.

(b) Commodity concentration - Another way of considering the export sector is in terms of the variety of commodities that a country exports as well as in the relative size of each commodity group to the total. Here the emphasis of evaluation is on the degree of specialisation attained by a country in its export trade and not on the relative importance of the two classes of goods, primary and manufactured, in the export mix. The term used to designate this measure is "commodity concentration."

One estimate of the index of Ghana's commodity concentration[12] in 1959 produced the following set of figures as shown in Table 3.4.

$$C_1 = .733 \quad \text{and} \quad C_3 = .704$$

Another calculation of the index by another investigator for a later period (1957-65) arrived at the figure of .707 (or 70.7 when expressed in percentage). This is shown in Appendix A which sets out annual commodity concentration indexes for Ghana's major trading areas for the indicated period.[13]

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11. B.F. Massell, "Export Instability and Economic Structure" op.cit.

12. Commodity concentration indices are Gini Co-efficients defined as $C = \sqrt{\Sigma (x_i/x)^2}$ where xi = the value of exports of commodity i to all destinations and x = the total value of exports to all destinations.

13. J. Clark Leith: "Export Concentration and Instability; the Case of Ghana" Ghana Economic Bulletin, Second series, No.1 Vol.1 (1971).

As in the case of "primary product ratio" it is the contention of some that high commodity concentration in the exports of primary products are a contributory factor to short term fluctuations in export earnings. However, this view has not received any strong confirmation from the recent findings of some investigators who have been using post-war data. In the words of one investigator:

> "The ratio of exports which were primary products and the commodity concentration ratio between them explained less than 6 per cent of the difference between countries in export instability," 14.

If note is, however, taken of the fact that statements which derive their validity from conclusions reached at a high level of generalisation may convey ideas which bear little or no semblance to some of the particulars from which their derivation is obtained, then the possibility that the substance of the above quotation may not apply to the concrete situation of Ghana will have to be granted. The point of material significance is that it is not just concentration on any primary product which matters in this instance, but rather concentration on a commodity or a group of commodities that have a reputation of severe price fluctuations. In the particular case of Ghana it is the effect of the characteristics of one commodity, cocoa, which is paramount. As Prof. Macbean observes:

> "The case of Ghana is another which is explicable mainly in terms of specialisation on a product which has a record of sharp fluctuations in world trade." 15

He reiterates the point by remarking that Ghana specialises not merely on a primary product but on especially unstable primary product.[16] This is indeed a point of great significance for any trade policy considerations that Ghana might have to undertake.

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14. A.I. Macbean: Export Instability and Economic Development (Allen & Unwin, London, 1966). p.56.
15. Ibid. p.55
16. Ibid. p.56

(c) Geographic concentration - The evolution of the geographic distribution of Ghana's trade was influenced by the country's association with the United Kingdom and the other members of the Commonwealth. With the passage of time contacts with other countries have increased the number of trading partners.

The restructuring of the geographic pattern of Ghana's external trade was one of the Government's aims when the country attained self-government. The reason was mainly political, i.e. to divest the country of its supposed colonial image in trade matters. On purely economic grounds a country's geographical distribution of trade is considered in terms of what has been designated in the literature as "geographic concentration.[17]

According to some writers the concept is significant as it explains the underlying causes of the sensitivity of some economies, especially the open ones, to economic influence generated in countries with whom they trade. As a result of an economies openness such influences might have a great effect, through various leakages, on how it is able to attain its intended economic objectives. An example of two countries, Malaya and **Indonesia**, whose economic performance has been affected by influences originating in countries that happen to be trading partners is cited by Prof. Macbean:

> "Their instability seems to be a by-product of the instability in industrial countries demands for raw materials caused by cyclical fluctuations in their economies and speculation in stock-piling of strategic raw materials." 18

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17. The geographic concentration index is a Gini coefficient and is defined as $G =$ where X_j is the value of the exports of all commodities to destination j and X is the total value of exports to all destinations.

18. A.I. Macbean, op.cit. p.54

As shown in Table 3.4 the geographic concentration of Ghana's merchandise exports in 1959 has been estimated at .393 by one investigator.[19]

In comparison with the other countries shown in the table the geographic concentration of Ghana's exports in 1959 was much less than that of Mauritius and Nigeria which were 0.847 and 0.571 respectively, but slightly higher than the remaining countries. Another calculation of Ghana's geographic concentration of export trade in a **slightly** later period, i.e. 1957-65, was found to have a mean index of 47.46 per cent (or .475) for all commodities with **the** yearly variation for the period ranging from 39.57 per cent to 51.91 per cent. An interesting result of the investigation is that cocoa, Ghana's most important export item, which constituted 61.6 per cent of the total value of exports during the period had the lowest index, 41.91 per cent.[20]

Geographic concentration indexes by themselves have little or no significance for trade policy measures, in that whereas the demand for some commodities is worldwide that for others is confined to individual countries; so without reference to the particulars of each commodity the indexes are not of much value.

Cocoa is widely regarded as a luxury food item and the demand for Ghana's export of the crop is mostly located in the rich industrialised countries. The three biggest importers, U.S.A. West Germany and the United Kingdom, between them absorb around 50 to 60 per cent of Ghana's total exports. The question to ask is whether by acquiring a smaller geographic concentration index for Ghana's cocoa exports through a greater diversification of markets the country would certainly gain by it. This is important for trade policy measures.

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19. B.F. Massell, "Export Concentration and Export Earnings, op.cit."

20. J. Clarke Leith, op.cit.

(d) Export market shares: When a country's exports of a commodity form only a small portion of the total supply entering world trade, the demand curve for that commodity can be assumed to be virtually horizontal as far as that country is concerned, but where its exports of that commodity constitute an appreciable proportion of the total in world trade, the demand curve facing it should be taken as assuming a shape quite different from the horizontal curve and more to that of the total demand curve, the degree of approximation depending on how close the ratio of the value of that country's exports of that commodity to the total value entering world trade is to one. An exporting country faced with a virtually horizontal demand curve for its export item is a price taker and in this case cannot by any means take a unilateral action to influence the world price of the commodity; but where it happens to be accountable for a sizeable portion of the total supply entering world trade and is faced with a demand curve which is far from horizontal in shape, it may find itself in a better position to influence the price movements of the commodity through manipulation of supplies (if it also has the means), though in this case too much depends on how the demand side is organised.

A large share of the export market does not necessarily put an exporter in a strong bargaining position. Much depends also on the ability to withhold supplies for as long as necessary. Unfortunately, many primary producing countries with sizeable shares of the world markets lack the power to withhold their supplies for any length of time either because they do not possess the facilities for the storage of their products or find such storage unduly expensive or because they stand in dire need of foreign exchange. In the case of metal ores and other minerals the power of the major producing countries to manipulate supplies is considerably weakened by the costly results of bringing mining operations to a stop, especially when overhead costs are high.

Ghana's standing in the different world commodity markets varies considerably for its position in each is determined not only by its share of the world's total supply, but also by a set of institutional arrangements and practices which impart to each market its salient characteristics. Speculative transactions, buyers' organisations, stockholding and governmental participation or non-participation are a few of the many factors which are operative in the day to day determination of prices in such markets.

Of all its major exports it is only in the case of cocoa that its share of the market, which since 1951 has ranged from 26 to 37 per cent of the world's annual total supply, could have given it some influence in the determination of price. (See Appendix B for Ghana's annual share of world cocoa supply). However, many factors have combined to deprive it of any telling influence in price fixing which its sizeable share of the market might have given to it. Among such factors are its preference for dealings in the futures market, its need for foreign exchange and eagerness of the other cocoa producing countries to sell their harvested crops.

On the buying side the cocoa market in the western world is dominated by three cocoa processing firms, Nestle's of Europe and America, Hershey's of America and the Cadbury British Cocoa and Chocolate group. The activities of these large buyers whittle down the influence in the market of large producers.

With regard to timber Ghana's supplies of hardwood increased considerably from the middle of the '50s and as a consequence there was an expansion of its share of the world hardwood market. In 1959 and 1960 its hardwood ~~timber~~ exports constituted about 30 per cent and 15 per cent of the market for logs and sawn wood respectively. Because many of the varieties exported from Ghana were species that were new to the market, they could not command the high prices that they deserved. Furthermore, the constant shifts in preferences exhibited by buyers for the different species that had already established themselves on the market made it difficult for Ghana to take the best advantage of market conditions, even where it happened to be the sole supplier of a particular species.[21]

In the case of the minerals their sales have been the responsibility of the foreign firms that mine them. Ghana Government's portion of the benefits accruing from the mining industry has depended primarily on royalties, export duties and company tax levied on the mining companies.

(e) Elasticity of Demand and Domestic Consumption of Exported Products :

The behaviour of the export trade is affected by the elasticity of demand of each of a country's major merchandise exports, though much also depends on such other factors as fluctuations in commodity supplies, the producing country's shares of the world markets, the influence of buying intermediaries and facilities for holding stocks.

Severally or in diverse combinations these can either augment or minimise the relevant significance of demand elasticity.

With regard to the major exports of Ghana it is only in the case of cocoa that the concept of demand elasticity has been much discussed. The situation derives most probably from the crop's importance in the export sector and on the fluctuations in both its supply and price. Various studies on its short period as well as medium and long term price elasticities of demand have been made. With regard to short-period price elasticity estimates concerning that of manufacturers in different countries have yielded figures ranging from 0.2 to 0.6. Final consumer price elasticity for cocoa is considered to be higher than that of manufacturers and has been estimated in two studies to be between 0.6 and 0.8 in one case

21. Ghana Economic Surveys, Accra, 1959, 1960, & 1961

and 0.5 and 1.2 in the other.[22]

With regard to income elasticity of demand for cocoa the studies so far conducted indicate that it is generally positive but on the whole lower than one; however, the numerical estimates of its value have varied between country and country. The countries for which the studies were conducted were grouped into two; for the group containing the wealthiest ones the elasticities were between 0.3 and 0.4 and for the other the estimates ranged from 0.6 for the rich countries to well over 1.0 for the least well off in the group.[23] Though a knowledge of the numerical value of price elasticities is helpful as it can be used to estimate likely price changes in consequence of changes in supplies, in the world cocoa market, however, actual prices may deviate very much from estimates based on price elasticities. As has already been pointed out price determination in this market is a process which is much affected by the market's institutional nature.

B. <u>CHARACTERISTICS OF THE IMPORT SECTOR</u>

In the literature prominence is more often given to the import sector as far as the pursuit of trade policies is concerned. In the literature it is usually in connection with the import sector that trade policies are discussed, and more often than not they are treated almost in the nature of corollaries to measures for national economic development.

When required as a complement to domestic output in order to satisfy more fully national demands, merchandise imports are very beneficial; but

22. See W. Birmingham et al. "A Study of Contemporary Ghana, Vol.1. The <u>Economy of Ghana</u> (Allen & Unwin, London, 1966), pp.373-377; A. Viton: "Cocao: A Review of Current Trends in Production, Price, and Consumption," F.A.O. Commodity Series Bulletin, No.27 (Rome 1955); <u>Review of World Cocoa Economy and the Work of the F.A.O. Cocoa Study Group.</u> (F.A.O. Rome 1963)

23. W. Birmingham et al - op.cit., p. 375

their benefits often have incidental costs which necessitate measures for rectification. Common among these costs are unemployment, unfavourable balance of payments and dependent or satellitic status of the national economy. The extent of the success that can be attained in finding a solution to these problems depends significantly on the degree of complementarity that subsists between the merchandise imports and the variety of goods that are produced domestically.

Table 3.5 shows that by value about 50 per cent of the country's total imported merchandise classified by end use consisted of durable and non-durable consumers' goods during the period 1954-1960 and about 25 per cent was made up of raw and semi-finished materials. Capital equipment accounted for between 12 and 22 per cent and fuel and lubricants were around 5-6 per cent. The sub-group food, drink and tobacco alone came up to between 16 and 23 per cent of the total.

The characteristic feature of over 80 per cent of the imports is that they were either semi-processed or fully manufactured goods. In other words, they were goods which could not be domestically produced as the country's manufacturing sector was very undeveloped.[24] The imported goods were required more to complement than to supplement domestic production and many categories of items, e.g. capital equipment and materials for construction, mining and manufacturing, were indispensable requisities for domestic production. Because they had no alternative domestic sources, their elasticity of demand was very low.

As shown in Table 3.5 during the '50s, especially towards the end of the decade, there was a distinct increase in the percentage value of imported

24. According to the Walters Report the manufacturing sector of Ghana contributed only 0.8 per cent to the country's GDP in 1955 and by 1961 it had increased to 2.3 per cent. "Other recorded private industry", that is, a sector comprising mostly handicrafts and production units of self-employed artisans, contributed 16.3 per cent in 1955. The sector's percentage contribution to GDP fluctuated around this figure up to 1961. See Birmingham et al. op.cit. p.56.

Table 3.5 IMPORTS BY END USE - PERCENTAGE OF TOTAL VALUE 1952 - 60

	Jan-Nov 1952	Jan-Nov. 1953	1954	1955	1956	1957	1958	1959	1960
	%	%	%	%	%	%	%	%	%
NON-DURABLE CONSUMERS' GOODS									
Food, drink and tobacco	13.4	15.1	15.4	15.6	15.3	16.3	16.5	15.5	14.2
Textiles & clothing0	34.0	35.2	22.2	22.9	19.5	21.3	17.8	16.8	16.8
Other			8.6	8.8	9.2	9.8	10.6	9.8	10.3
Total	47.4	50.3	46.2	47.3	44.0	47.4	44.9	42.1	41.3
DURABLE CONSUMERS' GOODS									
Private vehicles and accessories	2.7	2.9	3.0	3.2	3.6	3.4	3.3	3.0	3.5
Other	2.1	2.2	6.5	6.7	.6.	6.0	6.3	5.2	5.1
Total	4.8	5.1	9.5	9.9	10.2	0.4	9.6	8.2	8.6
RAW AND SEMI-FINISHED MATERIALS									
Materials for food, drink, and tobacco			5.9	5.0	5.7	6.2	5.8	5.4	5.2
Materials for agriculture	26.9	25.0	1.6	1.1	2.1	2.0	2.2	2.6	2.0
Materials for mining and manufacturing services			5.5	5.7	5.4	5.7	6.4	6.1	5.8
Materials for construction			11.5	12.4	12.5	10.2	10.6	11.9	10.9
Total	26.9	25.0	24.5	24.2	25.7	24.1	25.0	26.0	23.9
Capital Equipment	12.2	13.2	14.1	13.3	15.1	12.9	13.9	18.8	21.6
Fuel and lubricants	8.7	6.4	5.7	5.3	5.0	6.2	6.6	4.9	4.6
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value (in ₵'million)	121.2	129.0	142.1	175.8	177.8	193.4	169.2	226.0	259.2

Source: Ghana Government Economic Surveys, Accra various issues.

capital equipment(from around 13 percent to around 19 per cent) and this was accompanied by a falling trend in the percentage value of imported textiles and clothing, from around 22 per cent to around 17 per cent.

C. TRADE POLICY AND TARIFFS IN GHANA BEFORE 1957

(a) Trade Policy - The trade policy in existence in Ghana up to 1957 derived from what has become known as the "colonial system", the essential principle of which was that the function of a colony was to serve as a source of raw materials for the factories of the metropolitan power and also as a market for its manufactured products. In consequence of this, the policy pursued in the colonial territories discouraged the development of manufacturing industry.[25] In the same vein, economic development projects which were energetically undertaken were, more often than not intended to benefit ultimately the metropolitan power.[26]

Ghana's trade policy before 1957 was in conformity with the type of import tariff system adopted by Britain which in practical terms meant the erection of a single tariff wall around Britain itself and the other territories collectively termed the Sterling Area. The primary purpose of this system was to encourage to the maximum exports to the United States of America and other hard currency areas and, on the other hand to restrict imports from them to those commodities which were totally unavailable or could not be obtained in adequate quantities from both the Sterling and the soft currency areas.[27]

25. See "Colonial Economic Policy" in Encyclopaedia of the Social Sciences Vol.III & IV (Macmillan Pub. Co. New York, 1954), pp.646-651

26. The following statement substantiates this point, "Throughout its discussions the Committee has regarded the increase of production in the colonies not merely as a measure to meet the immediate dollar emergency but as a long term contribution to the ~~xxxxxxxxxxxxxx~~ stability of the sterling area and to European reconstruction plans." Source of Quotation: Colonial Primary Products Committee - Interim Report - H.M.S.O. Colonial No. 217 (January 1948). The East African Groundnut Scheme and the Gambian Egg Scheme can be cited as other examples.

27. An Economic Survey of the Colonial Territories op.cit. Vol. III p.47

The war-time regulation of imports and exports hardly affected the tariff structure then in force in Ghana. Regulation took the form of foreign exchange allocation and the quantitative restriction of some commodities from certain countries. The commodities that were controlled could be imported only with the grant of what was termed "specific licence" and they included such staples as flour, tinned meat, oil and fats. These items, with petroleum included, comprised those goods for which demand was then very high, but of which either Britain was in short supply or the Sterling Area happened to be on balance a net importer from the Dollar Area. In the case of commodities on which no restrictions were on importation with regard to either source or quantity orders could at anytime be placed for them under "open general licence".

In the administration of import controls during the '40s and a greater part of the '50s between 20 and 25 per cent of the total imports of the country was handled by "specific licences" and the sources of supply greatly affected by the controls were the USA and Japan.[28]

In consonance with colonial trade policy whenever the foreign exchange position of the Sterling Area deteriorated, Ghana on instructions from Britain, was constrained to widen the range of its imports control, both with respect to commodities and their sources of importation. This happened, for instance in 1957 when the gold reserves position of the Sterling Area worsened. Ghana was at that time obligated to impose greater restriction on imports from the USA even though in its trade with Ghana the United States was a net importer.

(b) The Structure of tariff rates and export duties - Before 1957 tariffs were imposed in Ghana solely for revenue raising purposes. As mentioned already, whenever reduction in the amount of imports was required,

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28. See P.T. Bauer, "West African Trade". (Routledge and K. Paul Ltd. London 1963) Chapters 11 and 13 for an account of the wartime trade controls in British West Africa.

the authorities resorted to quantitative restrictions rather than to tariffs.[29] Furthermore, the tariffs that were imposed were on the whole low. The system was non-discriminatory with regard to sources of imports, although structurally it differentiated between various categories of commodities; essential consumers' goods, luxury items, raw materials for industrial use, capital goods, etc. The rates were graduated; the goods that were considered essential came in either duty free or were taxed very lightly and those which were classed as luxury or non-essential goods attracted high duties.

The tariff rates applicable in Ghana in the early '50s were those stipulated in the Customs Ordinance of 1947 as subsequently amended by the Customs (Amendment of Duties) Resolutions and Orders. The ad valorem rates show that the levy was on the whole moderate; for many commodities the rate was around 10 per cent. The items so lightly taxed were the non-luxury consumer goods, but in the case of luxuries and liquor the duty was high. Perfumery, for example attracted 66⅔ per cent duty.

Exempted from the payment of import duties was a wide variety of goods which included such things as educational books and equipment, nearly all types of machinery (but excluding typewriters), appliances, apparatus and building materials.[30]

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29. The granting of preferential treatment to some countries by means of reduced tariff rates might have led to the diminution of the revenue of the Central Government. It was probably for this reason that Ghana did not grant reciprocity of treatment to the United Kingdom, its biggest supplier, when the Imperial Preference was instituted.

30. By Customs (Amendment) of 1953 the exemption from the payment of customs duty of a wide range of machinery was abrogated.

Corresponding to the import duties were export and mineral duties. Between 1945 and 1952 the gold mines paid an Export Duty amounting to 20 per cent of the difference between the traditional price of gold, i.e. 84s.11½d. per ounce and the current price, but some relief was given to the mining companies that would have made a loss had gold remained at the traditional price. In 1952 the Export Duty was replaced by a Minerals Duty imposed on all mineral-producing companies. This was a graduated tax the rate of which varied with the "yield ratio" of each mining enterprise.[31] The "yield" was calculated by deducting from the gross sales of the mineral won the total operational cost for the period in which the mineral was won. The "yield ratio" is, therefore, the ratio of profit to the value of the output of the minerals sold.

Rates of Tax		Tax Ratio
If yield ratio was less than 15 percent	-	-
If yield ratio was more than 15 per cent but less than 30 per cent	-	0.02% for each 0.1% that the yield ratio exceeded 15%
If yield ratio was more than 30 per cent but less than 70 per cent	-	3 per cent plus 0.04 per cent for each 0.1% that the yield ratio exceeded 30 per cent
If yield ratio was 70 per cent or more	-	19 per cent plus 0.02 per cent for each 0.1% that the yield ratio exceeded 70 per cent.

By the 1951 amendment the export duty on cocoa was set as follows: either one-ninth of the value of the crops per ton or £10 per ton, whichever was the lower, when the price was £110 or less per ton, but when the price was over £110 per ton the duty per ton was equal to the excess of the price per ton over £100.

31. Apart from the Minerals Duty the mining concerns were also subject to the payment of company tax; in view of the fact that the minerals won are almost all sold outside Ghana, the Minerals Duty can be regarded as a form of export duty.

CHAPTER 4

THE EXTERNAL SECTOR 1951-60: INSTITUTIONAL SET-UP AND PERFORMANCE

(i) Introduction - The performance of the external sector of the country has been determined not only by foreign demand for its exports and domestic demand for its imports but also by other institutional factors. As a matter of fact no meaningful appreciation of the performance of the external sector can be obtained if no cognisance is taken of the activities of the expatriate business enterprises, especially the trading concerns, which have been operating in the country since the turn of the last century. By means of their transactions these firms translated into concrete terms the colonial policy that was pursued by the metropolitan power when it exercised political control over the country. Generally speaking, in promoting their interests they tended to resort to trade practices and manoeuvres which militated against the interests of the indigenous people. For example, the formation of an association and the practice of local representation of foreign manufacturers by those engaged in commerce brought into being an oligopolistic structure which by calculated design caused the destruction of indigenous traders who had hitherto been operating in the external sector for years.

Intent on securing the highest possible profits for themselves "the European firms bought the crops produced by the Africans at prices fixed by themselves while they also fixed prices for the imported goods."[1] The cocoa hold-up of 1937 and the historic boycott of imported goods sold by the foreign firms were the reaction of the local people to the organised expatriate exploitation. But it is the effect of the practice on the external trade sector of the country that is of concern to us in our present study.

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1. See Ghana '76 - An Official Handbook - pub. by Ghana Information Services Department, Accra, p.10

The overall performance of the external sector for the period 1951 to 1960 will be examined below from the sector's two aspects, exports and imports.

(ii) Export trade and associated production activities - The upper limit to the performance of the export sector can rightly be said to be set by the output capabilities of the production units that produce for export and given the existence of a potential foreign demand for Ghanaian merchandise, the country's realisation of the greatest possible gains from trade would depend on such capabilities. What is actually realised, that is deviations from possible maximum performance, will be influenced partly by the institutional set-up for the conduct of business and partly by the extend to which the commodities produced have also acquired a domestic demand. These points will be presently considered.

(a) Export Oriented production units - Production units generally adopt techniques which are considered or proved to be most appropriate for their environment. On theoretical grounds one would therefore expect that because Ghana is short of capital and liberally endowed with labour the production techniques to be adopted by all the industries in the country would be labour intensive. But this has not been the case in recent decades. Factor intensity has varied from industry to industry. For instance, the method of cultivation used in the cocoa industry has been labour-intensive and this has been of tremendous benefit to the inhabitants who are cocoa farm owners. In gold mining however, capital-intensive methods have been in use since the beginning of this century when expatriate firms first entered the industry. And the same applies to manganese and bauxite mining. In diamond mining, however, on account of the nature of the deposits both capital and labour intensive methods have been employed with more or less equal success, the former by large foreign firms and the latter by indigenous diggers.

In the timber industry the employment of large capital equipment by the expatriate firms entering the industry after the second world war demonstrated the superiority of capital-intensive over labour-intensive techniques, especially in mill work. It was through the adoption of capital-intensive methods by the foreign firms that the timber industry became much revived and was able to respond to rising prices of timber in the world market. (See Tables 4.3 and 4.4 below).

In both diamond minin~ and the timber industry the foreign firms were few, but because they used capital-intensive techniques in which they had heavily invested, they dominated both economic activities in which also existed large numbers of indigenous operators. In the timber industry their production methods had a demonstration effect on some of the Ghanaian entrepreneurs.

Experience has shown that the production units of the country have used with advanta~e the techniques of production most appropriate to each industry. In some it has been capital-intensive, in others, labour-intensive and in one case there has been the co-existence of both methods. The available evidence does not lend support to the Heckscher-Ohlin theory, if its reference to factors is limited to only capital and labour. With regard to the use of methods of different factor-intensity in the same industry it can be said, as it has been observed by some writers, that the theory is made almost valueless by the "significant proposition that there is more than one way of producing most goods".[2] Another criticism of the theory provides a pointer to the reason why in some of Ghana's production activities capital intensive methods have proved more appropriate despite the fact that

2. J.L. Ford, "The Ohlin-Heckshor Theory of the Basis of Commodity Trade" in Economic Journal, September 1963, pp. 458-476 and S.R. Merrett, "The Leontief Paradox" in Economic Journal, Sept. 1965, p. 641.

the country very much abounds with labour. This criticism stems from H.B. Chenery's assertion that "

"to judge comparative advantage by the capital-labour ratio is to assume that capital is equally substitutable for labour in producing all the commodities traded." 3

In Table 4.1 the number of the mining firms and the value of their produce are given for the periods 1950-51 and 1956-57. 1951, 1959 and 1960 Statistics about the small-scale indigenous operators are unavailable. Since all the mining companies were themselves responsible for the export of their produce which was either sold at world market prices or used directly by affiliated companies, the upper limit to their performance can be taken as being set by their output figures.

The export performance of the production units outside the mining industry (i.e. the cocoa and timber industries) were determined by different factors. In the case of cocoa export the shipping business was for years completely monopolised by European trading firms who by forming a monopolistic association deprived the local farmers from having direct access with the world market. The low prices they paid for the cocoa beans they purchased from the producers had an adverse effect on supplies as large numbers of farmers became prone either to poor husbandry as far as their farms were concerned or to indifferently drying their harvested beans.

Since low prices did not anywhere induce farmers to increase their output, their reaction can be taken as an indication that the phenomenon of "target" workers, as applied by some economists to peasant farmers, whose response behaviour to prices exhibit backward sloping supply curves, is not something prevalent in Ghana.[4]

By 1951, however, the foreign firms were no longer engaged in the buying of cocoa in the country. The transaction was taken over during the

3. See H.B. Chenery's Comments on Factor Intensity Criteria in his article "Comparative Advantage and Development Policy" in American Economic Review March, 1961, pp. 18-51

4. Edith Whetham and Jean Currie "The Economics of African Countries", C.U.P. 1969, p.91

Second World War by the West African Produce Control Board, set-up by the British Government, and on 1st October, 1947, transferred to the Gold Coast (now Ghana) Cocoa Marketing Board.

Table 4.1 NUMBER OF COMPANIES IN THE MINING INDUSTRY AND VALUE OF EXPORTS, 1951, 1959, AND 1960

Industry Year	Number of companies	Value of produce exported (f.o.b) ₵'000
Gold		
1951	12	17,134
1959	8	22,401
1960	8	22,178
Diamonds		
1951	4	12,834
1959	5	17,318
1960	5	19,679
Bauxite		
1951	1	453
1959	1	732
1960	1	1,100
Manganese		
1951	2	14,424
1959	1	13,555
1960	1	12,766

Source: C.B.S., Trade Report, 1952, Accra, Economic Survey, 1960, Ghana Mines Department Annual Report, various issues

The policy of the Marketing Board was severely criticised in the '50s by some British writers.[5] But it has to be noted that the prices which the Board was then paying to the farmers were much higher than anything offered to them by the European merchants who bought from them before the Board was created. The relative attractiveness of the Board's prices, despite rises in the general level of prices, was much appreciated by the farmers who were in general unaware of the gap which existed between the world market prices and those paid to them. To them the prices offered by the Cocoa Marketing Board were unprecedentedly high.

Of the domestically produced commodities that entered into the export trade of the country only one had a sizeable home demand and that was timber. Though statistics for the domestic consumption of timber are difficult to obtain, it has been estimated that home consumption has been about two-thirds of the amount exported. Some firms (the big ones) produce mainly for export and some (the smaller ones) produce for both export and the home market. There are no data to show how in the case of the latter the relative attractiveness of prices on the world and domestic markets can cause supplies to be diverted from one to the other market.

As there was virtually no official restriction on the exportation of tradable commodities during the period under consideration, the quantities

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5. See - P.T. Bauer and F.W. Paish: "The Reduction of Fluctuations in the Incomes of Primary Producers" in Economic Journal, December 1952, pp.750-780; and "The Reduction of Fluctuations in the Incomes of Primary Producers Further Considered" in Economic Journal, December 1954, pp.704-729; also P.T. Bauer "West African Trade" part 5 op.cit. The criticisms of Bauer and Paish were directed against the Board's policy in connection with such matters as the stablisation of prices and the effects on production and farmers' savings. ? The only cogent criticism was the one against the Marketing Board's failure to stabilise prices. With regard to the adverse effects on production that the prices paid were likely to have it was the considered opinion of authorities in Ghana that there were no grounds for such prognostication, because the prices the farmers were receiving were much higher than anything ever paid to them. Subsequent output trends proved the critics wrong (see Appendix D). and in 1970s? There was more than 50 per cent increase in cocoa output in the '60s over that of the '50s. This is partly the result of the vast sums spent by the Board in fighting the ravages of the swollen shoot disease and partly the establishment of new cocoa farms by the farmers.

For other views on the fiscal role of the Marketing Boards see G.K. Helleiner Peasant Agriculture, Government and Economic Growth in Nigeria. Irwin, Homewood, 1966, Chapter 6.

of merchandise exported were in the main the result of a response to world prices. An expression of such prices in the form of indices and actual amounts of quantities exported for the period 1945-61 are shown in Tables 4.2 and 4.3 respectively. An examination of Table 4.3 reveals that whereas some export items steadily increased in amount, others stagnated or declined.

(b) Minerals - On the whole, there was a rising trend in the output of gold in the '50s despite the fact that during the period prices were more or less static. The amount of the mineral exported in 1957 was 788,000 ounces as compared with 692,000 ounces in 1951. A contributory factor to the sticky prices was the marketing system whereby much of the gold produced was purchased by governmental agencies at the price of $35.00 per fine ounce, the price at which the Federal Reserve System of the United States of America was obligated by law to buy the mineral.

Table 4.2 PRICE INDICES OF MAJOR EXPORTS OF GHANA 1948-60 (1953 = 100)

Year	Gold	Diamonds	Manganese	Cocoa	Timber		Export Price Index
					Logs	Sawn	
1948	66	68	37	85	80	-	75
1949	76	88	46	54	62	-	57
1950	95	130	75	86	85	95	86
1951	95	200	77	111	112	118	109
1952	101	140	90	104	97	111	104
1953	100	100	100	100	100	100	100
1954	96	111	98	166	92	103	143
1955	97	134	83	134	84	101	120
1956	97	171	95	92	84	104	97
1957	96	169	121	82	70	111	92
1958	96	146	145	133	74	115	123
1959	96	153	110	116	91	120	113
1960	96	166	100	92	115	125	101

Source: The political economy of colonialism in Ghana, A collection of documents and statistics, edited by G.B. Kay (C.U.P.) 1972

Table 4.3 VOLUME OF MAJOR EXPORTS OF GHANA: 1948-60

YEAR	GOLD ('000 oz)	DIAMONDS ('000 carats)	MANGANESE ('000 tons)	COCOA BEANS ('000 tons)	TIMBER Logs ('000,000) hop.ft.	TIMBER Sawn ('000,000) cu.ft.
1948	671	1030	630	214.3	7.9	-
1949	656	930	741	263.6	7.8	-
1950	705	1140	711	267.4	10.4	2.1
1951	692	1760	806	229.5	9.1	2.7
1952	704	2130	794	212.0	7.5	3.0
1953	733	2160	746	236.6	10.4	4.7
1954	788	2120	447	214.1	12.6	5.3
1955	723	2280	540	205.9	16.9	6.5
1956	598	2520	636	234.4	19.6	7.4
1957	788	2930	640	260.2	24.5	7.8
1958	852	3280	530	197.3	27.0	7.8
1959	902	3120	526	250.2	28.0	8.0
1960	892	3280	547	302.8	29.0	8.3

Sources: C.B.S. Economic Survey, 1960 and The Political Economy of Colonialism in Ghana, A Collection of Documents and Statistics by G.B. Kay, (ed) C.U.P. 1972

The export of manganese, for its part, was on the decline during the period in spite of rising prices; the official reason given for this lack of response of output to improving prices was the difficulty of mining the ore as it was feared the deposits were becoming exhausted. The production and export of diamonds on the other hand, responded very well to the attractive prices offered, which in the '50s were far higher than those that could be fetched a decade before. As the diamonds were of the industrial type, the postwar industrial activity imparted an upward spurt to their prices. The amount exported rose from less than 12,000 carats per annum in the '40s to over 2,000,000 carats during some years in the '50s.

(c) Cocoa - The export of cocoa stagnated for about a decade and a half immediately after the second world war. The sharp rises in prices during the period had no effect on supplies. As shown in Tables 4.2 and 4.3 though prices during the '50s were more than six times what they were in 1945 the quantities exported fluctuated around 220,000 tons. The explanation for the irresponsiveness of supplies to price rises was that a large number of the cocoa trees had been attacked by the swollen shoot disease at that time. Furthermore, the new cocoa farms that were set up in consequence of the improvement in prices took between five and seven years to mature. It was therefore not until the beginning of the '60s that appreciable and sustained increases in quantities exported became manifest and this was the result of the successful containment of the swollen shoot disease and the beginning of a flow of supplies obtained from the fruition of newly grown trees.

With regard to cocoa trade and prices two points are worth noting, as far as Ghana is concerned. The first is that the prices paid by the Cocoa Marketing Board to the farmers for their crops have generally been below those that obtain on the world market and it is the prices offered by the Marketing Board that the farmers respond to. Their response to world market prices can be said to have only a remote and indirect effect on their production. The reason is this: in fixing the level of the prices it pays to the farmers the Cocoa Marketing Board takes into account, among other things, the prices prevailing on the world market. Local price decisions are taken within the context of world cocoa price movement.

The second point is that Ghana has generally been making its cocoa sales in the "futures" market and the prices it has been able to secure through forward sales dealings have more often than not been below subsequent "spot" prices. An examination of Table 4.4 will show that there have been occasions when the average annual "futures" prices has been below 80 per cent of the average quoted "spot" price in London. The far from satisfactory performance of the Marketing Board in its forward sales dealings has serious implications for the country's annual foreign exchange earnings.

(d) **Timber** - The export of timber registered a notable response to the price improvement of the period. As shown by price indices in Table 4.2, increases in the prices of timber in the form of logs during the '50s were about half as much as they were in the latter half of the '40s. The indices for the '50s range between 70 and 115 and records then showed that prices were not only high but also unprecendented. Before 1946 the annual export of timber never reached the 5 million hop.ft. mark but the figure was attained in that year and since then annually surpassed for the years shown in Table 4.3. The rate of expansion of export was such that in 1957 the amount of timber exported in logs form was 24.5 million hop.ft.

A significant development in the timber industry occured in 1950 when sawn timber which had never before been exported from Ghana made its shipment debut. This development was the result of the entry into the industry of big foreign firms with heavy investment in machinery, as mentioned earlier.

Table 4.4 COMPARISON OF GHANA COCOA "FUTURES" AND 'SPOT' PRICES AT THE LONDON EXCHANGE AND PRODUCER PRICES - 1949/50 TO 1960/61

Crop Year (1)	Average Selling 'Futures' Price: Ghana Cocoa Beans ₵/per ton (2)	Average Quoted 'Spot' Price ₵/per ton in London (3)	Producer Price - ₵/per ton (4)	Column (2) As % of Column (3) (5)
1949/50	356.8	416	168.0	85.8
1950/51	537.0	570	261.3	94.2
1951/52	490.2	602	298.7	81.4
1952/53	462.9	574	261.3	80.6
1953/54	717.4	934	268.4	76.8
1954/55	710.2	604	268.4	117.6
1955/56	443.6	442	298.7	100.4
1956/57	379.0	494	298.7	76.7
1957/58	608.6	704	268.4	86.4
1958/59	561.0	570	268.4	98.4
1959/60	545.6	450	224.0	121.2
1960/61	420.6	360	224.0	116.8

Sources: Ghana Cocoa Marketing Board at Work, 1968, Ghana CMB Annual Report and Accounts, C.B.S., Economic Surveys and Statistical Year Books.

(e) Direction of Export Trade - The destinations of exported items are dependent on either expressed or anticipated demand. In either case tastes and standards of living of the trading partners have been significant factors. Of much significance is the historical connection between the importing and exporting countries. These factors have had much effect in determining the direction of Ghana's merchandise exports, but within the context of colonial trade policy, the last of the three factors mentioned above was the most potent during the period under consideration. An examination of Table 4.5 which shows the countries of consignment of Ghana's exports makes evident that during the '50s (a) over 85 per cent of the value of the country's export trade was with the Western Block and that of this slightly less than half was with the United Kingdom; (b) trade with the Eastern Block was quite small - between 2 and 8 per cent - and (c) the European Common Market steadily increased in importance as a selling area.

It is worthwhile to end this analysis by making an observation on the extent to which Ghana's exports to each of the principal trading partners were either diversified or concentrated. A study of Appendix A shows that in 1957, with the exception of the United Kingdom and the Scandinavian countries, the merchandise exports to each country or group of countries were highly concentrated and except in the case of the European Economic Community the situation has since then not altered much.

(iii) Import Sector: Its Growth and Impact on the Balance of Trade

(a) Import trends - Ghana's import trade during the period under consideration and the associated activities which imparted to it the characteristics of its growth rate can be regarded as significant developments in that they provide a key to a meaningful understanding of the country's balance of payments difficulties that were subsequently to emerge as well as to the thinking behind the Government's trade strategy in the '60s.

The oligopolistic structure which had been institutionalised in the earlier decades by the foreign-owned commercial firms for the purpose of securing effective control over the import trade continued to prevail quite

TABLE 4.5 DIRECTION OF GHANA'S EXPORT TRADE

¢'000

	1951		1954		1957		1959		1960	
	Value	%	Value	%	Value	%	Value	%	Value	%
I. WESTERN BLOCK	167,404	91.0	206,254	90.0	159,824	87.2	210,222	92.7	206,862	98.2
1. Sterling Area	82,467	44.8	102,476	44.7	74,488	40.7	78,860	34.8	85,202	36.7
United Kingdom	76,471		92,340		68,362		69,778		72,550	
Other	5,996		10,136		8,126		9,082		12,650	
2. Dollar Area	60,025	32.6	40,018	17.5	30,764	16.8	44,784	19.8	36,874	15.9
3. European Common Market	23,135	12.6	61,646	26.9	53,912	29.4	85,776	37.8	81,480	35.1
4. Territories Associated with E.E.C.	1,772	1.0	2,114	0.9	660	0.4	802	0.4	3,308	1.4
II. EASTERN BLOCK	6,825	3.7	14,572	6.4	12,498	6.9	4,710	2.1	16,774	7.2
1. U.S.S.R.	6,824		14,570		12,498		3,942		14,550	
2. Czechoslovakia	1		-		-		492		542	
3. Other	-		-		-		276		1,682	
III. REST OF WORLD INCLUDING JAPAN	9,752	5.3	4,182	3.6	10,880	5.9	11,784	5.2	8,330	3.6
Grand Total	183,981	100	229,190	100	183,204	100	226,716	100	231,966	100

Source: Office of the Government Statistician, Annual Report on External Trade 1951–1953; Central Bureau of Statistics, Accra, External Trade Statistics – End of year issues.

unlike the situation in the export sector where the dominance of the firms as stated earlier was ended as a result of the establishment of the Cocoa Marketing Board in 1947. Acquisition of control over the sector was realised through local agency arrangements which the firms compacted with overseas manufacturers and suppliers.

In making decisions about the sources from which to obtain their supplies the firms were influenced by the profit motive and acted primarily in their individual interests but the implementation of their decisions gave rise to the geographical pattern of the country's import trade. In the colonial days the firms were free to take decisions about sources of orders in so long as the resulting transactions conformed to the principles and objectives of the colonial trade policy currently in force.[6] (See Table 4.6 for pattern of import trade).

Before the outbreak of the second world war the firms engaged in the importation of goods into the country did as best they could to acquire the needed supplies from abroad to satisfy their customers, but during and immediately after the war the demand-supply relationship underwent a marked change. On the one hand, there were constraints on the procurement of supplies and on the other hand, there was an appreciable increase in the demand for imported goods.

The procurement difficulties arose from two factors: the first was the inability of the overseas suppliers to cope satisfactorily with orders placed with them in response to pent up and newly expressed demand by Ghanaian consumers and the second was the development of a physical bottleneck in the supply channel, a development which in concrete terms took the form of increasing inadequate anchorage facilities at Ghanaian ports for the unloading of ships.

6. The relation between the British firms which have been operating in Ghana and the Colonial Office in London and the part the firms played in the economic life of the country up to the time of independence are recounted and evaluated by Josephine Milburn in British Business and Ghanaian Independence; published by C. Hurst & Co. London, 1977.

TABLE 4.6 SOURCES OF GHANA'S MERCHANDISE IMPORTS 1951 – 60

₵'000

COUNTRIES	1951		1954		1957		1959		1960	
	Value	%	Value	%	Value	%	Value	%	Value	%
I. WESTERN BLOCK	110,754	86.8	116,102	81.7	144,952	9.52	182,582	80.8	207,294	79.9
1. Sterling Area	76,060	59.6	73,268	51.6	87,136	45.1	103,462	45.8	107,990	41.6
United Kingdom	67,902		68,980		81,486		90,576		95,110	
Other	8,158		4,288		5,650		10,886		12,880	
2. Dollar Area	8,046	6.3	8,436	5.9	11,318	5.9	20,078	8.9	21,494	8.3
3. European Common Market	21,048	16.5	25,534	18.0	37,080	19.1	50,430	22.3	66,236	25.5
4. Territories Associated With E.E.C.	5,600	4.4	8,864	6.2	9,418	4.9	8,616	3.8	11,574	4.5
II. EASTERN BLOCK	1,600	1.2	2,100	1.5	5,344	2.8	7,446	3.3	11,062	4.3
1. U.S.S.R.	-		42		2		2		1,120	
2. Czechoslovakia	1,408		1,742		2,810		3,180		3,470	
3. Other	144		316		2,532		4,254		6,472	
III. REST OF THE WORLD INCLUDING JAPAN	15,280	12.0	23,898	16.8	43,074	22.2	36,016	15.9	40,878	15.8
Grand Total	127,586	100	142,100	100	193,370	100	226,044	100	259,234	100

Source: Office of the Government Statistician, Accra: Annual Reports on External Trade 1951-1953 and Central Bureau of Statistics, Accra, External Trade Statistics, end of year issues.

During the war years the principal importing firms formed an organisation known as the Association of West African Merchants for the purpose of promoting mutual interests through the pursuit of equitable allocation of imported merchandise and other goals. Because of the shortages of essential imported consumer goods that prevailed for some time after the war and of the overall rises in the prices of manufactured goods, the Association was accused by the Ghanaians of operating in a cartel-like manner. As members of the Association controlled upwards of 90 per cent of the import business, resentment against them was widespread and this eventually became one of the factors that led to the looting and burning of foreign-owned shops in the country in 1948.

Before 1957 the Ghanaian politicians were unhappy about the domination of the import sector by the foreign owned firms but as ultimate power with regard to trade and other external matters was still being exercised by Britain there was nothing they could do. As was well known the pursuit of trade was one of the reasons behind Britain's annexation of the country and the foreign owned firms were there for that end. Whatever plans the local politicians had for securing an end to the domination of the import sector by the expatriate firms had to await the attainment of political independence. Until then the importation of goods into the country had to be done by means of the existing commercial infra-structure.

(b) Determinants for demand for imports - As mentioned above there occured sharp increases in the demand for imported consumer goods during the post-second world war years. The causes of the increases have been attributed to a variety of factors of which the following are the salient ones: the expression of unsatisfied demand which had accumulated during the war time; increasing national income; investment by firms in the private sector and the implementation by the Government of the 1951 Development Plan.

(1) With regard to demand for consumer goods which became pent up during the war years it can be said that much of it was satisfied during the latter part of the '40s and it can thus be presumed that it was not much of a potent force in the '50s.

(2) With respect to the point that increases in demand for imports are effected by increases in a country's national income, it is pertinent in the case of Ghana to examine the relationship between the two variables during the period.

It was believed that during the post-war years there was a positive correlation between national income and imports[7] and this as a first test indicates that increases in the country's national income occasioned some increases in its demand for import. However, the measure commonly used for the relationship between changes in imports and changes in the national income is the <u>income elasticity of demand for imports</u>. This is the ratio of proportionate change in imports $\frac{\Delta M}{M}$ to proportionate change in national income $\frac{\Delta Y}{Y}$ within a given period, usually a year.

If the income elasticity of demand for imports is denoted by e_m, it can be expressed in terms of its component elements as follows:

$$e_m = \frac{\Delta M}{M} : \frac{\Delta Y}{Y} \qquad (1)$$

$$\text{and so} = \frac{\Delta M}{\Delta Y} : \frac{M}{Y} \qquad (2)$$

$\frac{\Delta M}{\Delta Y}$ is the marginal propensity to import

and $\frac{M}{Y}$ is the average import-income ratio or the average propensity to import.[8]

7. See D. Seers and C.R. Ross: <u>Report on the Financial and Physical Problems of Development in the Gold Coast</u>, Office of the Government Statistician, Accra, 1952.

It was stated in the report that the official view was that the correlation after the post-war years was 0.5

8. See Gottfried Harberler: <u>A Survey of International Trade Theory</u> Special papers in International Economics No.1, Princeton, 1961, pp. 34-35

If the proportionate change in imports is denoted by g_m and the proportionate change in national income is denoted by g_y then by the definition of income elasticity of demand for imports in (1) we have

$$e_m = \frac{g_m}{g_y}$$

and hence $\quad g_m = e_m \cdot g_y \qquad (3)$

This indicates that growth in imports is dependent on income elasticity of demand for imports and growth in the national income. It follows from (3) that for a given elasticity of demand for imports a change in the national income of a given magnitude gives rise directly to a definite change in imports. Where therefore a given income elasticity of imports has been established for a country, changes in its imports can firmly be asserted to be a function of changes in its aggregate income.

For the period 1953 to 1960 the income elasticity of imports and the corresponding marginal propensity to import for Ghana have been calculated for each year on the basis of the national income data shown in Appendix ~~E~~ D. A time-lag of one year has been assumed to exist between changes in income and the consequent changes in imports.[9] The income elasticity of imports e_m is thus:

$$e_m = \frac{\Delta M_2}{\Delta Y_1} \div \frac{M_1}{Y_0}$$

where Y_0 = aggregate national income for the base year; M_1 = total imports of Year 1 (indicating a time-lag of one year); $\Delta Y = Y_1 - Y_0$ (total imports of Year 1 minus total imports of the base year, i.e. differential imports) and $\Delta M_2 = M_2 - M_1$ (total imports of Year 2 minus total imports of Year 1, ie. differential imports over the year with a time-lag of one year). The results of the calculation are shown in Table 4.7 and an examination of the figures shows that it is not demonstrated that

9. See W. Birmingham et al. A Study of Contemporary Ghana. Vol. 1 pp. 349–354 where the question of time-lag for Ghana's import expenditure is discussed. It is rightly stated there that it would be mistaken to relate incomes,~~etc~~ in any one year to imports in the same year.

Table 4.7 INCOME ELASTICITY OF DEMAND FOR IMPORTS AND MARGINAL AND AVERAGE PROPENSITY TO IMPORT FOR GHANA 1953-1960 WITH ONE YEAR TIME-LAG

Year (with the previous year but one as base) (1)	Income Elasticity of Demand for Imports $\frac{(\Delta M_2/M_1)}{\Delta Y_1/Y_0}$ (2)	Marginal Propensity to Imports $\frac{(\Delta M_2)}{(\Delta Y_1)}$ (3)	Average Propensity to Imports $\frac{(M_1)}{(Y_0)}$ (4)
1953	-67.43	-20.00	0.30
1954	- 0.62	- 0.21	0.34
1955	0.83	0.25	0.29
1956	- 1.29	- 0.36	0.28
1957	2.10	0.62	0.29
1958	- 2.46	- 0.75	0.30
1959	5.70	1.48	0.26
1960	1.25	0.41	0.32

Source: Based on data from Appendix D1

during the period 1953-60 the country's income elasticity of demand for imports was in any way fixed. Of much significance is the fact that negative values are registered some years for the income elasticity of demand for imports. Such values indicate an association of an increase in the national income with a decrease in imports or vice versa.

The erratic behaviour of the elasticity of imports as portrayed in Table 4.7 raises a question about the existence of more or less constant income elasticity of imports for Ghana, because it is on the basis of such an existence that changes in its national income can be said to bring about changes of a specified magnitude in its imports. It might probably be that during the '50s there was one at work for the long-run period but that its operation was nullified by other factors. Certainly the high prices paid to the cocoa farmers for their crops in the '50s - about 60 per cent more than what they had received in the late '40s - considerably increased the money in circulation and much of this was spent on imports. Despite all this, the trade and income statistics for the period show that the year to year relationship between the changes in the national income and the changes in imports was inconstant.

(3) For an explanation of short-run behaviour of imports one is obliged to look elsewhere. One meaningful answer is provided by the Economic Survey of 1957. In considering the imports situation for the period 1951-57 it states:

> "The volume of imports into the country is determined primarily by the amount of purchasing power in circulation. /This/ in turn is determined mainly by three sets of payments, viz., Cocoa Marketing Board's purchases of cocoa, Government expenditure and Private Investment ... Thus if we add together Cocoa Marketing Board's payments, Government current grants, prchases of goods and services, and fixed capital formation the resulting total increased by 70 per cent between 1950 and 1955. In the same period the value of imports adjusted for changes in stocks, increased by 78 per cent. The actual figures were that these payments increased by £38.2million from £54.7 million while imports increased by £37.2 million from £47.6 million. Indeed since Cocoa Marketing Board payments increased very little (only by £3.4 million or 12 per cent) and private capital formation also increased only by £4.3 million, we can say that the prime determinant of the level of imports was Government expenditure, current and capital, which increased by £30.5 million ..." 10.

10. Ghana Bureau of Statistics: Economic Survey,1957,Accra, 1958,

The substance of this excerpt which reflects the views of the Government's own economists is that the most important single factor that influenced the behaviour of imports during the period under review was Government expenditure with cocoa farmers' sales purchases and investment in the private sector playing only a supporting role.[11]

(iv) The effect of high level Government expenditure on the Balance of payments - The Government's own expenditure behaviour during the period was determined by two factors, viz. the implementation of the Development Plan of 1951 and the insistence of Kwame Nkrumah after he had come into office as the Leader of Government Business and later as the Prime Minister that the 10 year Plan should be telescoped into one of 5 years.

The 1951 Development Plan was prepared after the publication of the report of the Watson Commission.[12] Nkrumah had played no part in its preparation since it was drawn up before his Party won the 1951 elections which ushered him into office. The Plan was officially considered to be mainly a statement of policy in which the Government's development objectives were set out. It had an in-built flexibility which allowed for annual changes in expenditure by each government department within the framework of the overall objectives of the Government. Originally the intended expenditure under the Plan was to total ¢152 million (£76 million) and the Plan itself was to cover ten years - 1951-1961, but shortly after he had assumed office as Leader of Government Business he made no secret of his dissatisfaction with the Plan. Some had criticised it on account of its being nothing but a "colonial shopping list" outlining a jumble of projects that had caught the fancy of the various

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11. Another factor which might have contributed to the behaviour of imports is the ordering strategy adopted by the commercial firms in obtaining and stocking supplies from overseas months ahead of anticipated demand.

12. The Watson Commission, composed of three members, was set up by the British Government after the widespread disturbances in Ghana in 1948. It was asked to investigate and report upon the disturbances and their underlying causes. In its report the Commission was very critical of the attitude of the colonial administration towards economic programmes for developing the country. See "Report of the Commission of Enquiry into Disturbances in the Gold Coast 1948, Colonial office, London, 1948

government departments, but he registered his disapproval on account of the tempo of development as conceived under the Plan as well as the emphasis which was laid on social service rather than on industrialisation.

Concerning the first cause of his disapproval[13] he and his Party colleagues brought pressure to bear on the Government in 1952 to condense the ten-year plan into one of five years and to include under it a large number of new projects.[14] The Government agreed to the changes and the proposed expenditure under the Plan was increased to a total of about ₵206 million (£103 million) an increase of over a third of the original amount. A break-down of the expenditure proposals is set out in Table 4.8

Table 4.8 EXPENDITURE UNDER THE 1951 DEVELOPMENT AND RESERVE DEVELOPMENT PLAN CLASSIFIED BY TYPE OF SERVICE

₵'000

Service (1)	Original Development Plan (2)	PROPOSED Revised Development Plan (3)	EXPENDITURE Reserve Development Plan (4)	Total (of colums 3 & 4) (5)
1. Revenue producing services				
(a) Trading	37,106	27,878	21,248	49,126
(b) Other	7,000	10,764	2,634	13,398
2. Agriculture & Trade				
(a) Economic(2)	30,610	37,948	1,644	39,592
(b) Advisory	2,378	1,382	-	1,382
3. Social & Comm. service	75,038	84,562	18,292	102,854
Total	152,132	162,534	43,818	206,352

Note: 1. Conversion from the original values has been made at the rate of ₵2.00 to £

2. Under the original Plan ₵6,820 Thousand and ₵16,000 Thousand were allocated to commerce and industry and roads respectively. In the revised Plan the amounts were changed to ₵6,882 Thousand and ₵23,430 Thousand respectively.

Sources: Economic Survey, 1953, Tables 30 & 34. pub. by Ministry of Finance, Accra, February, 1954.

13. The second reason for his disapproval will be dealt with in subsequent chapter.

14. See, Ghana Economic Survey, 1955, para. 294 and Speech by Kwame Nkrumah in Legislative Assembly Reports, Accra, March, 1959

The request of Nkrumah and his Party colleagues for an accele-ration of the pace of development under the 1951 Plan was made at a time when the prevailing economic conditions favoured their plea. First, there was a considerable inflow of money into the economy as a result of the high prices being paid by the Cocoa Marketing Board to the cocoa farmers. This inflow of money also gave rise to improved Government revenue. However, in view of the physical and other constraints on the flow of supplies of consumer goods from overseas, of which mention has been made above, the conjoint effect of the scarcity of goods and the increased quantity of money in circulation was a strong inflationary pressure on the economy. If some more of the money going into the hands of the cocoa farmers could be siphoned for financing public projects, it was felt, it might help in easing the inflationary pressure.

In the second place, in a report published in 1952 and based on investigations into the probable inflationary effects of an expansion in the investment programme of the public sector as well as the extent to which the country's building and construction industry had been a constraint on economic development, D. Seers and C.R. Ross, the authors, had argued that in view of the appreciable inflow of money into the economy the choice confronting the Government was not one concerning a high or a low level of public investment but rather one between a high consumption expenditure by households and a high investment programme by the Government.[15] The weight of this reasoning strengthened the stand taken by Nkrumah and his friends in advocating for an increase in the amount to be expended under the 1951 Plan. (The shares of the proceeds from cocoa sales that went to the Government, by way of export duty, and to the cocoa farmers before and after 1951 are shown in Table 4.9).

Thirdly, Ghana had at that time accumulated about ₵540million

15. See D. Seers and C.R. Ross: Report on the Financial and Physical Problems of Development in the Gold Coast, Office of the Government Statistician, Accra, 1952.

Table 4.9 GOVERNMENT'S AND FARMERS' SHARE OF COCOA PROCEEDS 1947/48 - 1959/60

Crop Year October - September (1)	Proceeds of Cocoa Sales £'000 (2)	% of Total proceeds	
		Export Duty (3)	Payment to Farmers (4)
1947/48	41,520	0.9	37.1
1948/49	37,545	4.5	88.8
1949/50	45,102	7.8	47.1
1950/51	70,300	19.0	48.7
1951/52	51,612	28.6	60.1
1952/53	57,120	28.0	56.2
1953/54	74,703	45.6	37.5
1954/55	77,487	49.5	39.9
1955/56	52,333	27.9	67.3
1956/57	50,686	23.6	78.8
1957/58	62,875	41.8	44.1
1958/59	70,946	36.0	47.0
1959/60	69,896	27.7	49.7

Notes:

1. Values have been given in £ sterling as sales took place abroad and the sterling was after independence at par with £G for some time.

2. The totals of the percentage shares do not add up to 100. This is because part of the proceeds went to the Cocoa Marketing Board to be used for :-
   (a) defraying various expenses and
   (b) the setting up of a price stabilisation fund.

3. The Board incurred losses in the crop years 1948/49 and 1956/57.

Sources: C.M.B. Annual Reports and Ghana Cocoa Marketing Board as Work, 6th edition, 1977.

(£270 million) in foreign exchange reserves and it was widely considered that this could be called upon for development purposes if the need demanded it.

The acceleration of the programme of development resulted in a big increase in demand for a wide range of machinery, equipment and materials for building and construction and because most of these could not be obtained locally they had to be imported. Rapidly increasing Government expenditure at home naturally led to an increase in purchasing power of which much drained into imports by way of demand for consumer goods which either could not be got locally or were considered superior.

It is significant to note that whereas the volume of imports escalated during the '50s that of exports stagnated. The trends in the volume of imports and exports during the period and the purchasing power of the country's exports, derived from its volume of exports and terms of trade are shown in Table 4.10 by means of index numbers.

It will be seen upon inspection of the figures, which have 1954 as the base year, that the volume of imports fluctuated gently around a steadily rising trend from 73 in 1950 to 133 in 1957. The volume of exports on the other hand, fluctuated around a falling trend from ~~144~~ 114 in 1950 to 100 in 1954. The poor export performance took away much of the advantage which could be accrued from the markot improvement in the terms of trade that occured in 1953 and 1954. In 1956 and 1957, however, exports were on the increase but because the terms of trade in its turn deteriorated, the benefit to be gained from the increase was mostly lost. As a consequence the purchasing power of the country's exports declined, on the whole, from 100 in 1954 to 78 in 1957, but not in 1958-59. An examination of the figures in columns (4) and (5) of Table 4.10 will show the contrast between the rising volume of merchandise actually imported and the stagnation in the country's purchasing power of exports (ie. its capacity to import based on exports).

Table 4.10 INDICES OF THE PURCHASING POWER OF GHANA'S EXPORTS AND ACTUAL VOLUME OF IMPORTS - 1950-60
(1954 = 100)

Year (1)	Terms of Trade (2)	Exports: Volume (3)	Purchasing of Power Exports (4)	Imports: Volume (5)
1950	158	114	72	73
1951	146	103	71	81
1952	158	100	63	80
1953	149	109	73	99
1954	100	100	100	100
1955	115	98	85	127
1956	149	111	74	123
1957	157	123	78	133
1958	112	102	91	118
1959	123	122	99	157
1960	153	144	94	171

Note: The Terms of Trade Index is calculated here by dividing an index of import prices by an index of export prices and multiplying by 100.

(2) Import prices were remarkably stable during the period so changes in the terms of trade were brought about by changes in export prices.

Source: Bureau of Statistics, Quartorly Digest of Statistics, Accra, various issues.

Development expenditure jumped in 1951 to a level which was much higher than it had ever been before and in the subsequent years escalated even more to greater heights. In terms of absolute values it was not more than ₵14 million in 1951 but in the following year it rose to over ₵27 million and in 1955 exceeded ₵57 million (£28.5 million) by a small margin. Over the period 1952 - 1957 it never fell below 30 per cent of the Government's total annual expenditure.

In view of the fact that most of the resources required for the implementation of the Plan at the high level as just indicated had to be obtained from overseas and also because the country's foreign exchange earnings were stagnant at that time the first balance of trade deficit since 1937 was incurred in 1956. The size of the deficit was not big in terms of total imports (2.6 per cent), but it proved to be an ominous harbinger of more serious ones to follow in due course. As Ghana's invisible transactions resulted each year in a deficit of a greater magnitude in the current account balance. This relationship is quite clearly shown by a comparison of the figures in columns (4) and (5) of Table 4.11.

The emergence of the trade deficit did not cause the Government any immediate concern in spite of widespread criticism within Ghana for the simple reason that the country had registered a large trade surplus of about ¢87 million in 1954 and had accumulated by 1955 foreign exchange reserves of about ¢416 million. (£208 million).

The trade policy and strategy adopted by the Government after 1957, the year the country attained political sovereignty, was to a considerable extent influenced by certain considerations and developments which manifested themselves during the implementation of the 1951 Plan. The most significant of them were the determination of Nkrumah to commit as much of Ghana's resources as possible to transforming the country into a modern state; the expenditure of large and increasing amounts of the country's foreign exchange earnings on machinery, parts, raw materials, etc. required for development purposes; the high proportion of merchandise imports that consisted of consumer goods; the purchasing power of the country's exports that stagnated during the period and the high proportion of the external trade transactions that was conducted with the western countries, especially Britain.

V. D. SEER'S SCHEME OF A PRIMARY PRODUCER'S STAGES OF DEVELOPMENT

A primary producer in the present century, according to Dudley Seers,[16] passes through five stages of development, viz., the open economy in its

16. Dudley Seers, "The Stages of Economic Development of a Primary Producer in the middle of the Twentieth Century" in the Economic Bulletin of Ghana, Vol. VII.No.4.1963,pp.57-69

pure form; the open economy under stress; the closed economy with a period of easy import substitution; the closed economy with a period of difficult import substitution and a final stage of export diversification. In the view of Seer's the Ghanaian economy by its performance ceased to be "open" in its pure form about 1955 and thus moved into the second stage, ie. an open economy under stress, the term "open" being used in the sense that the economy readily responds to external influences. The meaning imputed to the term "open" incorporates handsomely two different concepts, namely (a) the idea of an economy characterised by a low tariff structure with either a few or no import restrictions and (b) a type of economy whose imports or exports form a high proportion of its gross domestic product. With respect to the latter concept available evidence indicates that by value the share of either imports or exports in Ghana's gross domestic product was over 26 per cent before 1956.

Table 4.11 GHANA'S IMPORTS, EXPORTS, TRADE AND CURRENT ACCOUNT BALANCES AND RESERVES, 1950-1960

₵'million

Year (1)	Imports (2)	Exports (3)	Balance of Trade (4)	Current Account Balance (5)	Foreign Exchange Reserves (6)
1950	96.2	154.8	58.6	40.2	226.6
1951	127.6	184.0	56.4	38.6	274.4
1952	133.2	172.6	39.4	23.0	290.2
1953	147.6	179.8	32.2	10.4	320.2
1954	142.2	229.2	87.0	81.4	394.8
1955	175.8	191.4	15.6	3.6	416.4
1956	177.8	173.2	-4.6	-25.6	379.6
1957	193.4	183.2	-10.2	-28.8	342.8
1958	169.2	209.0	39.8	21.6	355.2
1959	226.0	226.6	0.6	22.6 ?	333.6
1960	259.2	232.0	-27.2	67.0	297.2

Sources: Bank of Ghana Quarterly Bulletins, Quarterly Digest of Statistics and Economic Surveys, various.

The primum mobile role accorded to exports for the generation of long period growth in an economy of the pure open type is similar to the role which exports have played in Ghana's economy not only up to 1955 but since then. However with regard to one other feature which Seers attributes to a purely open economy, that its average income elasticity of demand for imports is unlikely to be less than unity, statistical evidence, as has been shown earlier, does not indisputably support his assertion which embodies the premise that high elasticities are common for imported commodities. An examination of Table 3.4 shows that during the '50s a high proportion of Ghana's imports consisted of food, drink, tobacco, textiles and other non-durable consumer goods. Taken together the percentage share of these items in the total imports of the country rose from 47.4 per cent in 1952 to 50.3 per cent in 1953 and fell to 47.3 per cent in 1955. By invoking Engel's law, which states that with given preferences and tastes, the proportion of additional income spent on food tends to diminish as a person's income increases, we can infer that as most of the country's imports before 1955 consisted of food and similar or kindred commodities its overall income elasticity of demand for imports under normal circumstances was most likely to be less than unity.

The data in Table 3.4 show that the percentage shares of durable consumer goods and raw materials and semi-finished goods in total imports during the period were on the increase and these are indications that in their case greater than unity income elasticity of demand might have occured. However, because their shares in the total imports were small they could not have significantly altered the effect of the non-durable consumer goods category on the overall value of the income elasticity of demand for imports. However, the crucial point to note is that in view of the short term fluctuations in the value of Ghana's imports vis-a-vis those of the national income the determination of the country's income elasticity of demand for imports becomes a really problematic exercise.

For considerations of trade policy it is pertinent at this juncture also to draw attention to the percentage shares in Ghana's total imports that were taken up by food and kindred commodities.

According to Seers Ghana moved into the second phase of his scheme of development in 1955. The main features of this phase are the emergence of political forces aimed at achieving development and a stagnation or decline in the exports of primary products. As thus described the phase does not aptly delineate the sequence of developments in recent times. With regard to political forces which have been formed with the object of seeking economic development there is much evidence to show that such forces were in existence in Ghana long before 1955; indeed the formation of the Convention People's Party in the late '40s and the request by its leaders, when they became ministers, for telescoping the original 10 year version of the 1951 Plan into one of five years is a case in point.

As for Ghana's export of primary products the available statistics show that there was a rising trend in its volume before and after 1955. It was rather the purchasing power of exports that stagnated; but this phenomenon started to manifest itself in the period 1950 - 1953 and continued to prevail after 1955. (See Table 4.10 column 4).

It can be said, however, that around 1955 certain developments in Ghana's economic evolution provided a signal that the country was on the threshold of a new stage. A budget deficit of over ¢12.0 million was incurred by the Government in 1955 and in the following year an unfavourable balance of trade of about ¢4.6 million was realised. Subsequent events proved that they were heralds of a period of serious disequilibria.

By 1960 Ghana was still an open economy though under stress; it had still to enter upon the next stage, that of the closed economy with a period of easy import substitution. An account of this is given in Chapter 6 but before then the various development plans under which a drive towards industrialisation was steadily made will be discussed in some detail in the next chapter.

CHAPTER 5

DEVELOPMENT PLANS OF THE 'FIFTIES AND EARLY' SIXTIES: EVIDENCE OF DRIVE TOWARDS INDUSTRIALISATION

(i) The launching of the First Development Plan, 1951 - A new era in Ghana's **economic** development began in 1951 for it was at the beginning of that year that what has since come to be known as the First Development Plan was launched.[1] Conceived and executed by the Colonial Administration immediately after the end of the second world war, the Plan was intended to bring to completion all the development projects which had remained unfinished during the period of hostilities as well as to undertake new programmes intended to activate the entire economy.

The 1951 Plan has not been considered by many people as a Plan, but as an example of the "shopping list of projects" technique which was much favoured by colonial governments. As indicated in the preface to its financial summaries it was considered as "a statement of policy" in which objectives over a period of 10 years had been set out. In view of the lohg period to be covered by the Plan it was considered advisable to impart to it a built-in flexibility by permitting each government department to have some degree of freedom in the matter of making adjustments to its projected annual estimates if the passage of events demanded it.

The estimates for the major items under the (1951) First Development Plan are shown in Table 5.1. As can be seen from the table the total amount to be spent during the period was just under ¢166 million. Of much relevance and interest for our purpose is the apportionment of this amount to the major items

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1. The Development Plan, 1951, Government Printing Department, Accra, 1951.

The plan became known as the First Development Plan because it was the first of such plans to be implemented by the Government of the country upon attaining a measure of self-government. Even though the Plan was prepared by the Colonial Administration before internal self-government was granted to the country its operation came under the control of a nationalist government less than two months after it had been launched. The Plan was the sum total of the plans of the various government departments and the names of those responsible for their compilation and streamlining were undisclosed.

Table 5.1 FIRST DEVELOPMENT PLAN JANUARY 1951 TO JUNE 1957 ¢ 000

(1)	Esti- mates (2)	%	Expen- diture (3)	%	(3) As % of (2)
Industry	6,492	3.9	6,182	3.5	95.2
Agriculture, Forestry etc.	11,752	7.1	9,684	5.5	82.4
Education	25,256	15.1	24,462	13.9	96.9
Health & sanitation	10,542	6.4	9,288	5.3	88.1
Other Social services	1,158	0.7	1,158	0.7	100.0
Housing	10,450	6.3	10,364	5.9	99.2
Public Administration	6,748	4.1	6,066	3.4	89.9
Police & Prison	5,348	3.2	3,962	2.2	71.4
Broadcasting	1,386	0.8	1,488	0.9	107.4
Roads	23,396	14.1	29,644	16.8	126.7
Railways & Inland Waterways	16,844	10.2	16,012	9.1	95.1
Tema Harbour	-	-	16,400	9.3	....
Airports & Airplanes	390	0.2	306	0.2	78.5
Shipping	154	0.1	-	-	-
Other Transportation	236	0.1	366	0.2	155.1
Post & Telecommunication	3,436	2.1	3,286	1.8	95.6
Electricity	3,832	2.3	4,246	2.4	110.8
Water & Sewerage	11,814	7.1	6,842	3.9	57.9
*Volta	-	-	3,116	1.8	....
Defence	5,652	3.4	5,578	3.0	95.2
Miscellaneous	21,080	12.7	18,198	10.3	86.3
Total	165,966	100.	176,448	100	

*Volta - To be financed from the Reserve Decelopment Fund.

Note: 1. Arrangement and breakdown of details are after the pattern adopted by G.B. Kay in "Political Economy of Colonialism in Ghana" CUP. 1972, in order to permit comparison with items in Tables 5.3 and 5.4

2. Because of rounding the details do not add up to 100

Sources: Ghana Government, 1st Development Plan Estimates, Legislative Assembly Reports and Treasury Reports. Accra.

under the Plan. Of the productive sectors Industry and Mining was allocated 3.9 per cent of the total and Agriculture, Forestry, etc. 7.1 per cent. This added up to 11 pdr cent. On the other hand the non-directly productive sectors - roads and railways, education, health, post and telecommunications, etc - were given slightly more than 64 per cent of the entire amount.

The allocation of funds to the major items shows clearly that the planners gave prominence to those projects and services which had by tradition been the responsibility of the government to provide. The underlying philosophy seemed to be one of continuity of past practices rather than of change of direction. Yet, in spite of this, it was declared in the Plan that under it "pride of place" had been given "to economic and productive services with particular attention to agriculture in its widest sense, to industry and to supplies on which so much depends."[2] One wonders whether this statement, which did not reflect the proportion in which the funds were distributed among the various items under the Plan, was meant to appease those who were agitating for a programme of industrialisation for the country or to show the world and the Watson Commission that "in the matter of secondary industries" a beginning had at least been made with "planning on imaginative lines."

With regard to the amount allocated to the agricultural sector it can be said that because the country was predominantly agricultural and depended mostly on agricultural activities for earning its foreign exchange the percentage of the estimated total apportioned to it was far too small. This was especially so in view of the adverse comments made by the Watson Commission against the Department of Agriculture.

The years immediately following the second world war witnessed a spate of development plans in tropical African countries and it will be instructive to find out how Ghana's 1951 Plan compared with them.

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2. Ibid. p.9

(ii) Comparison between Ghana's 1951 and other African Plans: For comparative analysis we shall consider the plans in terms of the following broad categories; commerce and industy; agriculture, forestry and fishing; communications, etc; social services and general administration etc. Table 5.2 shows the summaries of the development plans of some countries and regions in Africa. Apart from Ghana those included are Nigeria, Kenya, Uganda, Tanganyika (now Tanzania), the French African territories and Belgian Congo (now Zaire). It can be seen from the Table that with regard to commerce and industry the 3 per cent allocated by Ghana to the item was below the average for the group, which was 4 per cent. Though the figure for Ghana was the third highest in the group, it was nevertheless nearly one-third that for Uganda. The generally low percentage figures for the item can be taken to indicate governmental development policies which were then generally oriented away from industrialisation.

In the case of Agriculture, Forestry and Fishing Ghana's contribution of 7 per cent to the item was among the lowest in the group; only the Belgian Congo and Uganda had lower figures. The figure for the French Territories - 15 per cent - was slightly more than twice that of Ghana, and Kenya's 26 per cent and Tangayika's 19 per cent were still better.

Ghana's highest percentage allocation in its plan went to Transport and Communication and its 31 per cent was the third highest in the group and the highest for the Commonwealth countries included. It was surpassed only by the Belgian Congo with 46 per cent and the French Territories with 45 per cent. These last two areas devoted almost half of their development resources to transport and communication but a cursory examination of the distribution of territorial plan funds readily discloses that on the whole the group gave the item a top priority consideration.

Concerning allocation for the social services Ghana's percentage

Table 5.2 GOVERNMENT EXPENDITURE UNDER DEVELOPMENT PLANS IN SOME AFRICAN DEPENDENCIES

% of total development expenditure devoted to:	Commonwealth West Africa		British East Africa			French Territories	Belgian Congo
	Ghana+ 1951-57	Nigeria * 1955-60	Kenya 1954-57	Uganda 1955-60	Tanganyika 1955-60	1947-56	1950-56
	%	%	%	%	%	%	%
Transport and Communication	31	25	13	14	29	45	46
Agriculture, Forestry & Fishing	7	9	26	4	19	15	6
Electricity & Water	9	7	16	29	17	4	11
Education	15	21	10	6	15	4	6
Housing (including Surveys & Town Planning)	6	3	7	12	8	1	4
Health	6	9	4	5	5	5	5
Commerce & Industry	3	5	1	11	1	3	2
Miscellaneous ‡	23	21	23	19	6	23	20
Total	100	100	100	100	100	100	100

Note: * Federal and Regional
+ Excluding development of new town and harbour at Tema
‡ Mainly Public Works

Source: United Africa Company, Statistical and Economic Review No.21, (London), p.22

figure of 36 , though the lowest for the Commonwealth countries; (Tangayika 45 per cent, Nigeria 40 per cent; Kenya 37 per cent; and Uganda 52 per cent), nonetheless compared favourably well with some of them. It was on the other hand much higher than the 14 per cent, for the Belgian Congo. Table 5.2 shows the breakdown of these figures among the following items; electricity and water, education, health and housing. In respect of health Ghana compared favourably with the others and its percentage for housing etc. was just about the average for the group. With regard to education its allocation of 15 per cent was slightly more than the average for the Commonwealth countries (13.4 per cent), but much higher than the figures for the French and Belgian dependencies which were 4 and 6 per cent respectively.

In the case of electricity and water the percentage of the total amount allotted by Ghana was far less than the figures shown in respect of each of the Commonwealth East African countries. The reason for this was that in the latter territories programmes for the development of hydro-electricity were then being implemented in Uganda and Kenya (the Owen Falls Scheme) and some thermal electricity installations being undertaken in Tanganyika. Similar developments in the Begian Congo accounted for the country's allocation of 11 per cent of its total expenditure to the item. As the figures indicated electricity development in Nigeria was on a slightly smaller scale than it was in Ghana, but considerably so when compared with the French dependencies.

Administrative and common services are shown in the table under the item termed "Miscellaneous." Ghana's allocation for this was 23 per cent and though the figure was high it was nevertheless equalled by that for two other areas, namely, Kenya and the French Territories, and not much greater than the average for the group, which was 19.3 per cent.

(iii) The C.P.P. reaction to the 1951 Plan: The comparative study just undertaken shows that whereas Ghana's percentage allocation to communications was in line with those of most of the other African countries, its proportionate apportionment to agriculture, forestry and fishing was much smaller than the percentage allocations made by three areas (Kenya, Tanganyika and the French Territories) and also far smaller than the group average of about 12 per cent. With regard to industry and commerce, Uganda can be taken as an example of what the Watson Commission meant by opportunities for bold planning for secondary industries in Ghana.

The underlying reason for the colonial administration's distribution of funds under the Plan and the top priority given to social services appeared a few years later in a government publication. Though it was admitted then that in 1951 the agricultural services "had many gaps in their equipment and coverage" and could thus not adequately "support the technical development of agriculture on a national scale"[3] the report, however, went on to offer an explanation for the big difference between the small allocations to the agricultural and industrial sectors on the one hand, and the large amount given to social overheads on the other. The gist of the explanation was that there was

> "[the] need to provide basic services before real expansion of agricultural or industrial output [could] take place," and that this need was "a handicap which [Ghana shared] with most developing countries".4

If indeed the allocation of the Plans funds had been influenced by this view it should then have been made known to the general public when the plan was first published instead of declaring officially then "that pride of place" had been given it to agriculture, industry and water supplies.[5] Decision-making with regard to development issues ceased to be

3. See - Development Progress Report, 1955, published by the Government Printer, Accra. 1956. para.5

4. Ibid. para. 6

5. The Development Plan, 1951, op.cit. p.9

the pre-rogative of the colonial administrators when a few weeks after the launching of the Plan the Convention People's Party under the leadership of Dr. Kwame Nkrumah swept the polls contrary to the expectation of the colonial administrators. Despite the fact that the Party's views on the direction and tempo of the country's economic development were at variance with those indicated by the financial estimates of the Plan, Nkrumah and his colleagues upon assuming office made no attempt to disrupt the plan's implementation; however, in late 1952 they commissioned Prof. W.A. Lewis to visit Ghana in order to study and advise on the problems likely to be encountered in the development of secondary industries in the country. The outcome of Prof. Lewis's work was his "Report on industrialisation and the Gold Coast"[6] which was published in mid-1953. The report surveyed principles, policies, and practical considerations to which attention must be given if any industrialisation programme in the country was to succeed. Though it was in no way concerned with the 1951 Plan, its policy recommendations led the government to adopt as soon as possible all those policy measures which were felt would benefit the implementation of the 1951 Plan.

The Lewis Report, of which the essential observations and recommendations are dealt with below, provided the framework for the Government's policy decisions regarding industrialisation in the succeeding years.[7] Not surprisingly the report quickly won world-wide recognition as a useful contribution to the literature on development economics.

Because the development programme as envisaged under the 1951 Plan

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6. Printed by the Government Department, Accra, 1953. The report will be referred to hereinafter as the "Lewis Report".

7. See - the very important statement made by Dr. Kwame Nkrumah, then Prime Minister to the Legislative Assembly in March 1953 on many issues dealing with development e.g. the training of senior technical and managerial staff; government policy to attract foreign investors in the industrial sector, financial assistance for new enterprises and acquisition of suitable sites for factories - all of which are matters which were dealt with in the Lewis Report. The speech was printed in "Industrial Development Committee, Reports and Accounts," 1954-5, pp. 29-31.

was considered inadequate by the Nkrumah government, it decided in 1952 to telescope the ten-year development programme into one of five years.[8] However, Nkrumah explained some seven years later that the step was taken b because his government had been "seized with the urgency of developing" the natural resources of the country.

The Nkrumah government's decision to turn the ten-year plan into one of five years was the first positive manifestation of the dissatisfaction of the nationalist with the pace of economic development which the colonial government had proposed for the country. Under the original Development Plan in 1951 nearly £74.0 million (₵148.00 million) was to be spent in 10 years. This was equivalent to an expenditure of £7.4 million (₵14.8 million) a year. This was a programme of development the nationalists considered as unsatisfactory. In revising the Plan in 1952 the amount to be spent in the shortened period of 5 years was considerably increased to around £120 million (₵240 million). In Table 5.3 the allocation of funds among the major groups of public investment in both the original and revised versions is set out.

Under the revised Plan it meant that on the average the sum of about ₵48.0 million was to be spent in a year instead of ₵14.8 million as was originally intended. The increase in expenditure was a reflection of the eagerness with which the politicians wanted to accelerate the process of economic development in the country.

Shortly after the implementation of the plan the demands of the various sectors quickly exposed the weaknesses of the economy with respect to infrastructure and human resources. In the interest of successful achievement of the Plan's objectives, priorities had therefore to be revised from time to time. For example, because inadequate port facilities had become a bottleneck to

8. See- Economic Survey, 1955, office of the Government Statistician, Accra, 1956, para.294, and the speech by the Prime Minister delivered in Parliament on 4th March, 1959 at the beginning of a debate on the Second Development Plan, published in Legislative Assembly Reports.

the flow of goods into and out of the country the problem was given attention as quickly as possible.[9] Other emergent problems were solved sooner or later according to their relative importance.

Table 5.3 ALLOCATION OF FUNDS UNDER THE ORIGINAL AND REVISED FIRST DEVELOPMENT PLAN BEGINNING 1951

	Original Development Plan 1951		Revised Development Programme	
	₵'m	%	₵'m	%
Communications	52.2	35	86.6	36
Other revenue producing services	...	...	24.9	10
Services to agriculture, industry and trade	24.9	17	18.7	8
Social services (including health and education)	49.0	33	52.7	21
Common services and general administration	21.8	15	52.3	25
Total	147.9	100	235.2	100

Note: Revised to 30th June 1956.

Sources: Gold Coast Government: Ten Year Plan and Economic Surveys, 1955 and 1957, Supplementary tables.

Though the average amount to be spent in a year was greatly increased the proportion in which the funds were to be distributed among the major sub-programmes revealed some changes. The percentage allocation to "communications" under the revised programme as shown in Table 5.3 was 36 as compared with 35 per cent under the original plan. For the item to have more than one third

9. At the request of the Colonial Office in London, Ghana's economy with reference to financial and physical problems was studied by Dudley Seers and C.R. Ross. Their work is entitled "Report on the Financial and Physical Problems of Development in the Gold Coast," pub. by the Office of the Government Statistician, Accra, 1952. The work focussed on the constraints the construction industry was imposing on Ghana's economic development.

of the total of investment funds in both cases was an indication of the importance the Government, even under the control of the nationalists, attached to it.

"Agriculture, industry and trade" together with "Other revenue producing services" received 18 per cent under the revised plan instead of 17 per cent as it was in the original plan. It was in respect of "Social services" and "General government" that great changes were made. Social services had its 33 per cent share in the original plan reduced to a share of 21 per cent, whereas that for general administration went up from 15 per cent to 25 per cent. The great expansion in the expenditure on general administration attracted some criticisms from some quarters. The Economic Survey 1955, for example, commented:

> "... details of proposed and actual expenditure by type of asset..../serve/ .... to emphasise the preponderance of investment in public buildings and social services and the relatively small investment in enterprises likely to provide an expanding source of revenue"[10]

The Economic Survey further pointed out that if Ghana was to emerge successfully from its under-developed state, further capital expenditure on social overheads would have to "be restricted to projects ancillary to those yielding a return to real resources."[11]

With reference to the remarks by Economic Survey, 1955 it can be said that the Government, even under the nationalists, realised that communications were ancillary to directly productive activities and their existence a pre-requisite for an accelerated economic development.

Of the total amount of about ¢240.0 million which was to be spent in 5 years under the revised plan only about ¢133.0 million had been spent by the end of 1955.[12] The reason for this was that the country did not then possess

10. See - C.B.S. Economic Survey 1955, para.301

11. Ibid. para. 303

12. See - Table 5.4

the infrastructural facilities and adequate numbers of skilled personnel of the requisite types to enable it to achieve the targets set under the revised plan.[13] In other words, the country's absorptive capacity proved to be too low for the revised plan.

(iv) Sources of finance for the First Development Plan

In the original Development Plan 1951 the cost of the various projects was estimated at ₵148.0 million as already stated. Under the revised plan, however, the amount to be spent was increased to about ₵240.0 million and the proposed sources of the requisite finance are shown in Table 5.4. It can be seen that revenue from cocoa duty was to make the greatest contribution (i.e. ₵182.92 million), when all the sources of finance as shown in the table are considered. According to the Development fund alone "general revenue" was to be the most important source of finance, with contribution from cocoa duty coming next. After the revision of the plan, projects were financed out of the provision for the Development, Special Development, Reserve Development and Second Development Funds as indicated in the table. Under the new arrangement cocoa duty therefore provided more than 50 per cent of the amount committed to the plan. General revenue provided ₵39.44 million. Loans from the Cocoa Marketing Board contributed ₵13.89 million[14] and net yield from investment ₵3.22 million. Other sources of finance included Colonial Development and Welfare Funds, ₵3.06 million (being the unspent portion of grant from the British Government); local loans ₵4.95 million, Repayment of war loans by the British Government, ₵1.6 million and other foreign operation administration ₵0.95 million.

13. The First Development Plan was eventually extended to 30th June 1957. At the beginning of its last year of implementation new estimates based on the existing capability of the economy to carry our projects were made and these are presented in Table 5.1. The total of the estimates is smaller than the total estimated cost of the revised plan, i.e. ₵165.96 million as compared with ₵235.2 million as indicated in Table 5.3. In terms of the estimates shown in Table 5.1 the last column of the table can be interpreted as assessment of the portions of the project groups that could be carried at the end of the Plan. It must be noted that the Volta hydro-electric project and the construction of Tema harbour did not form part of the First Development Plan though work on them began during the Plan period.

14. The loan granted by the Cocoa Marketing Board is something which some academic economists, as indicated in Chapter 4 did not look on with favour.

Table 5.4 FINANCIAL PROVISION FOR DEVELOPMENT AND EXPENDITURE ON PROJECTS
1ST APRIL 1951 TO 31ST DECEMBER, 1955

₵'million

	Total	Develo-pment fund	Special Dev. fund	Reserve dev. fund	Second dev. fund	Reserve for 2nd dev.fund	Supple-mentary reserve dev. fund
Amount set aside for development							
Contribution from cocoa duty	182.92	25.15	46.93	54.27	21.21	7.07	28.29
" from general revenue	39.44	39.44	-	-	-	-	-
" " C.D. & W. Funds	3.06	2.88	-	0.18	-	-	-
" " Foreign operation administration	0.95	-	0.95	-	-	-	-
" " From U.K. Govt. towards Volta R.P.P. Comm.	0.46	-	-	0.46	-	-	-
Net yield from investment	3.22	3.22	-	-	-	-	-
Loans from Cocoa Marketing Board.	13.89	13.89	-	-	-	-	-
Local loans	4.95	4.95	-	-	-	-	-
Balance of ex-enemy assets	0.27	0.27	-	-	-	-	-
Repayment of loans to U.K. Government	1.60	1.60	-	-	-	-	-
Total	250.76	91.40	47.88	54.91	21.21	7.07	28.29
Expenditure on projects	133.06	72.63	44.59	15.62	0.22	-	-
Balance as at 31st December, 1955	117.70	18.77	3.29	39.29	20.99	7.07	28.29

Source: Ghana Government, Economic Survey 1955, Appendix, and Economic Survey, 1957, Supplementary Tables.

It is apparent from the above that for the implementation of the Plan the Government depended too much on cocoa for its finances. Because of the problems associated with the crop's supplies and prices on the world market the risk elements in obtaining adequate funds to finance the Plan was increased when the Plan was expanded under the nationalist government.

(v) The Lewis Report

(a) Specification of the possible approaches: No account of Ghana's efforts to industrialise will be complete without some consideration of the Lewis Report which looked at a variety of issues concerned with the development of a modern manufacturing sector in Ghana. Included among the fundamental questions of importance were the categories of manufacturing activities suitable for establishment in Ghana, the supporting services that secondary industries would require and the appropriate policies to be adopted by the government if the industrialisation programme was to be successful.

Prof. Lewis indicated that there were three possible categories of manufacturing activities which Ghana could choose from. These were, first, manufactures that would be concerned with processing locally produced raw materials for export, second, those that would produce for the home market import replacing goods and third, manufacturing for export products the raw materials of which are very light in weight and do not consequently have high transport charges.[15]

Of the three alternatives Prof. Lewis ruled out the first and the third as approaches to industrialisation that would not prove profitable for Ghana. The reason for the first was that the domestically produced raw materials do not lose much weight in processing [16] and in the latter case

15. See – Lewis Report, op.cit. Chapter.1

16. On the concept of "weight loss" and "weight gain" as well as on transfer costs and the location of individual manufacturing units, see E.M.Hoover, The Location of Economic Activity, McGraw Hill, 1948, Chapter 3.

it was because Ghana did not possess a skilled labour force it would capitalise on.

He, however, indicated that manufacturing for the home market was worth considering and accordingly classified the activities of the manufacturing sector that the country could possibly undertake into "favourable" "marginal" and "unfavourable" on the basis of the domestically available raw materials as well as of the size of the existing domestic market for each of the country's principal imports of manufactured goods.

Favourable Industries

Oil expressing

Canned fruits and vegetables

Salt

Beer

Brick and tiles

Cement

Glass

Lime

Industrial alcohol

Miscellaneous chemicals

Wood products

Marginal Industries

Buiscuits, bread and cakes

Soap (would become favourable if it proved economic to manufacture caustic Soda etc.)

Confectionery

Cigarettes (marginal on imported tobacco; favourable on locally produced leaf tobacco).

Boots and shoes

Hats and caps

Shirts

Rubber manufactures

Knitwear

Weaving cotton and Rayon

Jute bags

Cotton piece goods (grey, printed dyed etc).

Singlets, jerseys,

Foundry products

Candles

Paints & colours

Travelling bags

Unfavourable Industries [17]

Wheat floor

Earthenwares

Gramophone records

Matches (but favourable if given local timber)

Sugar (favourable, if given irrigation and a nucleus plantation; until then unfavourable)

Umbrellas

Stationery - ink , pens, pencils and erasers

Brooms and brushes.

Dealing specifically with manufacturing activities Prof. Lewis made observations on such issues as management [18] ownership of enterprises (private or public), African enterprise and the responsibility of the State towards the manufacturing sector. Of even greater importance for the successful development of the manufacturing sector in an agricultural country like Ghana were the views he expressed on the conditions which should exist in the sectors, especially agriculture, which would give support to the manufacturing sector itself, and what he said on this formed an important part of the report.

The crucial role which agriculture generally has to play in industrialisation and in Ghana's case in particular was emphasised by Prof. Lewis in his report:

> "The secret of industrialisation is a rapidly progressing agriculture, and more particularly, since food production is the major part of agriculture, the number one priority in a programme of economic development is measures which increase food production per head." [19]

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17. The sequence of development of Ghana's manufacturing sector in several instances belied the classification of Prof. Lewis in the sense that some industries he termed unfavourable were started before those he regarded as marginal. Wheat flour and gramophone records are examples of such ventures and they have been successfully established.

18. The importance of managerial efficiency is dealt with by H. Leibenstein in his article "Allocative Efficiency vs. 'X-efficiency' in <u>American Economic Review</u>, Vol.56, 1966, pp.392-415

19. Lewis Report, para.99

> "The most certain way to promote industrialisation in [Ghana] is to lay the foundation it requires by taking vigorous measures to raise food production per person engaged in agriculture. This is the surest way of producing that large and ever-increasing demand for manufactures without which there can be little industrialisation." 20

On the basis of his findings after studying the Ghanaian economy Prof. Lewis made some recommendations at the end of his report on what had to be done if the industrialisation of the country was to be successful.

(b) Key conclusions and recommendations of the Report: Even though Prof. Lewis found the establishment of certain forms of industrial activities in Ghana to be favourable, the recommendations he made were nevertheless hedged with qualifications. For the purpose of our study the portions which are most relevant are either quoted or referred to below:

> "Measures to increase the manufacture of commodities for home market deserve support, but are not of number one priority. A small programme is justified, but a major programme in this sphere should wait until the country is better prepared to carry it. The main obstacle is the fact that agricultural productivity is stagnant." 21

Following the observation he made earlier in his report, Prof. Lewis concluded that the number one priority for Ghana in its intention to industrialise was "a concentrated attack on the system of growing food"; the same priority he specified in paragraph 99 for a general programme of increasing productivity in agriculture derived from the fact that it was "the way to provide the market, the capital and the labour for industrialisation." [22] He went on to add that:

> "Priority number two is to improve the public services to do this will reduce the cost of manufacturing in [Ghana] and will thus automatically attract new industries, without the government having to offer special favours." 23

Prof. Lewis further recommended that the Government could lend support to the establishment of industries which would not require large or continuing subsidies; that it should announce its attitude to foreign enterprises

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20. Ibid, para.22
21. Ibid, para.252
22. Ibid. para.99 and 253
23. Ibid. para.254

in relation to such matters as free transfers of profits, dividends, etc., compensation and partnership; that it should provide land for the building of factories or otherwise develop industrial estates and that the functions and responsibilities of the Industrial Development Corporation should be changed and the staff of the corporation should be increased.[24]

(c) Observations on some points in the Lewis Report: In dealing with the role which agriculture could play in achieving a successful industrialisation, Prof. Lewis stated that increased capacity to produce more food would yield some positive results, viz., the release of labour by agriculture for the expanding manufacturing sector; the provision of funds by agriculture for the manufacturing sector's capital formation, if reliance on more expensive inflow of capital from abroad was to be avoided, and increase in demand of the farming population for manufacturing products. All of these would consequently stimulate industrial expansion.

Apart from these effects no reference was made in the Report to the other benefits which can be derived from an agricultural sector which achieves productivity, viz., the earning of foreign exchange from agricultural exports and the provision of a useful tax base for the government.[25] The former is an important component of Prof. Lewis's three sector model of balanced growth,[26] and so the question which naturally comes to mind is why no mention was made of it in the report. This evidently was a serious omission but it seems it was not an oversight and the following quotation from the Report provides an explanation.

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24. Ibid. para.256

25. The sixth contribution which the agricultural sector can make to the successful development of the manufacturing sector is to supply required agricultural raw materials. Prof. Lewis, however, discusses the total production of raw materials in paragraph 207-210. The importance of the agricultural sector as a source of tax revenue cannot be overemphasised, especially in agricultural countries. It is with the revenue accruing from such sources that the government can provide the infrastructure and aid for the manufacturing sector.

26. W.A. Lewis, "The Theory of Economic Growth, op.cit. pp. 276-278

> "There remain, however, three other motives for prohibiting such transfers; when foreign exchange is scarce, or to stop capital flight, or to encourage re-investment in the country.
>
> The first case, shortage of foreign exchange does not arise in [Ghana] and is not likely to arise under the present currency arrangement. 27

At the time the Lewis Report was written Ghana was using the same currency as the other British territories in West Africa and in that respect was under the control of the West African Currency Board. Because of the way the currency Board system was operated, it was difficult to visualise how an individual member country could encounter a foreign exchange deficit. Prof. Lewis would surely have said something on the likely effects of a foreign exchange scarcity if he had in any way anticipated that the existing currency arrangement would shortly come to an end. Also if the Ghana Government had been warned of foreign exchange problems which had plagued many LDCs early in their effort to industrialise, it might have exercised some restraint in the use of the foreign exchange that the country earned in due course.[28]

Another point worth noting is that Prof. Lewis classified cotton weaving as a marginal industry. The reason he gave for this classification was that Japan and India were then the sources of Ghana's imports of cotton goods and since both countries had low wage cost he considered the industry to be a marginal one for Ghana as the country's wage cost advantage in it was very small. Prof. Lewis's classification of the industry can only be defended on the ground that he assumed away foreign exchange shortage for Ghana and thus carried out his analysis purely in terms of the law of comparative advantage. As Ghana was then aspiring for its independence, he

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27. Lewis Report, para. 129-130

28. See - D. Seers. "The Role of Industry in Development; Some Fallacies," in Journal of Modern African Studies, Vol.1 No.4, 1963, p.463 for the comments he makes on how the East African countries that operated a currency board were little alive to foreign exchange shortages as an outcome of import substitution activities.

should have evaluated the merits of the cotton industry with considerations of foreign exchange scarcity also in mind. Furthermore, at the time the report was written the country was importing large quantities of cotton piece goods of which the value of the printed prices alone amounted to slightly over £6½ million in 1950. For the purpose of employment alone there was certainly a strong case for the establishment of a cotton industry in the country.

Despite the havoc which the cotton products from Manchester had caused to the local handicraft industry engaged in spinning and weaving, the activities continued to be carried on in some parts of the country and so Prof. Lewis observed that with respect to the two processes mechanization usually produced the most spectacular increases in productivity. In view of this and the points made already it is all the more difficult to understand why he did not consider the cotton industry as a favourable one.

(d) Government's reaction to the Lewis Report: The Government took immediate measures to implement many of the recommendations contained in the Lewis Report. Anticipating the general tenor of the Report, the Prime Minister made an important policy statement to the National Assembly in March 1953 in which he clearly spelt out the measures which the Government was about to take in order to make investment in the manufacturing sector attractive to private investors, especially to investors from overseas who had the foreign exchange and the expertise the country needed badly.[29]

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29. See - the Prime Minister's statement on foreign investment to the National Assembly in March, 1953 in Industrial Development Committee, Reports and Accounts, 1954-55, op.cit.

(vi) Consolidation Development Plan and expansion of industrialisation Programme

On the official termination of the First Development Plan in June, 1957 the Second Development Plan was deliberately put off for two years.[30] The postponement, according to the Prime Minister, was necessitated by the fact that the country's long-term development plans could not be undertaken until a decision had been taken on whether or not to proceed with the Volta scheme.[31] In recognition of this the Government therefore decided to allow a maximum period of two years during which it was hoped a firm decision on the scheme would be obtained. By its very nature the Volta scheme was intimately related to the general development of the country, and as the Prime Minister intimated both the scheme and the country's general development had to be jointly planned.

In the circumstances it was decided that the two-year period was to be covered by a Consolidation Development Plan under which projects which had not been completed under the First Development Plan would be finished and "a number of additional projects undertaken in order to maintain as far as possible the momentum [of the country's] social and economic development."[32]

The estimates and the amounts actually spent under the plan are shown in Table 5.5. The pattern of allocation of funds to the various programmes was similar to that of the First Development Plan, although the total annual amount intended to be spent during the two-year period averaged slightly more than ¢47.5 million. This greatly exceeded the average annual expenditure under the First Development Plan by about ¢12.5 million or 35 per cent a year.

One feature of the Consolidation Development Plan was that only about 89.3 per cent of the estimated amount was spent, (see the bottom figure in column 3 of Table 5.5). In spite of this underspending, however, the average annual expenditure under the plan amounted to ¢42.7 million. Though one of the

30. It was the desire of Nkrumah's government to end the First Development Plan in 1956, but until the British handed over power completely in March, 1957, no announcement was made on whether or not the plan had ended.

31. The Prime Minister's development policy statement in the National Assembly on 28th May, 1957.

32. Ibid. (See National Assembly Debates).

Table 5.5 CONSOLIDATION DEVELOPMENT PLAN JULY 1957 TO JUNE 1959

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(1)	Estimates (2)	%	Expenditure (3)	%	(3) as % of (2) (4)
Industry & Trade	3,472	3.6	6,912	8.1	199.1
Agriculture, Forestry, etc.	5,516	5.8	4,452	5.2	80.7
Education	10,128	10.5	8,262	9.7	81.6
Health & Sanitation	3,472	3.6	1,362	1.6	39.2
Housing	2,962	3.1	2,894	3.4	97.7
Public Administration	4,104	4.2	5,722	6.7	139.4
Police & Prisons	1,928	2.2	1,372	1.6	71.2
Broadcasting	850	0.9	352	0.4	41.4
Roads	9,518	10.0	6,912	8.1	72.6
Railways & Inland Waterways	4,148	4.3	7,280	8.5	175.5
Tema Harbour	15,700	16.4	15,788	18.5	100.6
Airports & Airplanes	688	0.7	1,042	1.2	151.5
Other Transport	22	0.0	26	0.0	118.2
Post & Telecommunication	1,612	1.7	1,192	1.4	73.9
Electricity	4,754	5.0	2,346	2.8	49.3
Water & Sewerage	3,612	3.8	3,040	3.4	84.2
Tema Township	13,864	14.5	6,428	7.6	46.8
Volta	208	0.2	746	0.9	358.6
Defence	850	0.9	996	1.2	117.2
Miscellaneous	8,260	8.6	8,294	9.7	100.4
Total	95,668	100	85,472	100	89.3

Note: Arrangement and Breakdown of details are after the pattern adopted by G.B. Kay, op.cit. in order to permit comparison with items in Tables 5.1 and 5.5

Source: Ghana Government: National Assembly Reports and Treasury Reports, Accra.

objectives of the Government in implementing the plan, as indicated by the Prime Minister in his speech referred to above, was to maintain the momentum of the country's development it becomes evident upon examination of the sums spent under it that the level of expenditure attained was far higher than that required for maintaining the momentum registered under the First Development Plan. As things turned out it proved to be a harbinger of subsequent economic development programmes which were characterised by an all-out drive for industrialisation.[33] Whilst the plans overall expenditure was less than the aggregate of its estimates, the expenditure on some of the component programmes actually exceeded their budgeted allocations, Programmes in this category included industry and trade, public administration, railways and airports. Two of these, namely, railways and industry call for comment.

Soon after coming into power Nkrumah and his government decided that a second artificial harbour should be built for the country and funds were therefore secured for the project, even though it was not originally included in the First Development Plan. To facilitate work on the harbour the construction of a new railway line intended to shorten the distance by rail between the site of the projected harbour and the existing port at Takoradi was undertaken. A sum of about ₵7.0 million was eventually spent on the project.

The other programme on which there was an excess of expenditure over the estimated amount was that of industry and trade on which the expenditure was nearly twice as much as what was originally budgeted for it. The increase reflected the Government's reaction to the low rate of expansion being experienced in the country's industrial sector. As was reported in the 1957 Economic Survey, although the total number of engaged workers in manufacturing

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33. Before the attainment of full independence the Colonial Government during the period of internal self-government was reserved the power of veto. This is considered by some to have prevented Nkrumah's government from engaging in unbridled development expenditure.

establishments employing more than 10 persons increased from 14,203 to 14,633 between December 1955 and September 1957, the number of such establishments decreased from 123 to 107.[34] The Government therefore found it necessary to redouble its efforts in industrial matters by actively engaging in manufacturing.[35] The Government's action was in keeping with the views subscribed to by some economists that in the field of development, especially in less developed countries, the government can logimately promote economic activities which private economic organisations do not spontaneously wish to undertake.[36]

The important contribution which according to accepted views a productive agricultural sector can make not only to programmes to increase general prosperity of an economy but also to attempts to set up a successful manufacturing sector has been mentioned earlier in this chapter. It is therefore on this account suprising to find upon examination of the last column of Table 5.5 that only 80.7 per cent of the amount budgeted for agriculture under the plan was actually spent. The performance was really not satisfactory and this can be explained only by the fact that either the sector's absorptive capacity was still too low[37] or the Government's policy measures for agricultural development were not realistic or both.[38]

(vii) The Second Development Plan The last of the development plans to be launched in the 'fifties was the Second Development Plan. Started in July, 1959 it was unique in the sense that it was the first full-length plan [39]

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34. Ghana Economic Survey, 1957, para. 89-99

35. The participation of the Government in manufacturing is dealt with in Chapter 6.

36. See-section vii infra for the role the government should play in the provision of social overhead capital and directly productive enterprises. For an account of the action taken by the Ghana Government to expand the country's nascent manufacturing sector see Chapter 6.

37. See - the reference of footnote 4 of this chapter.

38. For a study of the agricultural sector and the government's policies towards it see - chapter 8.

39. The term "full-length" is used here to refer to a plan which is not intended as a stop-gap and is of the maximum duration which has been taken as the norm by the planners.

to be prepared and launched by the government after the country's attainment of full political independence. The allocation of funds among the various services and projects was done by the Government without any external pressures.[40] The magnitude of the cost involved was indicative of the extent to which the structural transformation of the economy was intended and given the time span of the plan it was suggestive of the tempo at which it was to proceed. But, as one observer has put it, more expenditure in the field of development is not necessarily capacity creating and absence of the supporting services of the right type and in the right quantities might possibly either reduce or nullify the usefulness of the projects concerned.[41] This observation was made probably with the experience of the First Development Plan in mind.

Excluding the Volta River scheme, but including a contingency vote of ¢114.0 million the Second Development Plan was estimated to cost ¢500.0 million.[42] The distribution of the total amount among the component programmes of the plan is shown in Table 5.6. It can be seen from the table that 10.4 per cent of the total amount was budgeted for "industry and trade." As mentioned in the plan, during the five-year's of its implementation the manufacturing sector was expected to set up 600 new enterprises of vaying size to produce over 100 different goods.

In asking the National Assembly to approve the Plan the Prime Minister mentioned that it was the intention of his government to accelerate the expansion of the country's manufacturing activities.[43] To this end the Government made known its industrial investment policy whereby it was prepared,

40. The services of Prof. W.A. Lewis were obtained for the preparation of the Second Development Plan. Final decisions about the form the plan should take were however taken by a Committee of which he was not a member.

41. See- Douglas Rimmer "1958 and After" in Economic Bulletin of Ghana" Vol.3. Nos. 8 and 9, 1959

42. The estimate of ¢500.0 million relates to what has been termed by some as the "large coat" plan as opposed to the "little coat" plan, the estimate of which was only ¢264.0million and which related to projects for "immediate implementation."

43. Speech in the National Assembly on 4th March, 1959. See - National Assembly Debates.

where appropriate, to participate jointly in manufacturing ventures with private investors. He further disclosed that before launching of the plan negotiations with several private investors had been initiated on the question of establishing some manufacturing industries in the country. In addition to this the Industrial Development Corporation was on its own to engage in more manufacturing activities. [44]

According to the figures in column 3 of Table 5.6 the expenditure on "industry and trade," by the time that the plan was terminated[45] had amounted to 108.4 per cent of the planned allocation. This can be interpreted as an indication of the Government's determination to achieve the objectives of its industrialisation programme. The level of activity in the manufacturing sector becomes apparent when its expenditure of 108.4 per cent of its budget is compared with the overall expenditure of 73.8 per cent of the plan's total estimate or the low percentage figures shown in column 4.

Attention is once again drawn to developments in the agricultural sector. The allocation made to it was nearly the same as that assigned to the industrial sector, but by the time the plan was terminated only 43.0 per cent of its allocation has been spent. This performance is a clear evidence of a declining agriculture.

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44. With regard to the financing of the whole plan it was the intention of the Government that a large portion of the financial requirement must be found from the country's own resources as it was in the case of the First Development Plan. In this regard the expected sources and amounts of finance were as follows:

The Government's own general revenue during the 5-year period, ¢30.0 million; the Government's free reserves (nearly all held abroad), about ¢100.0 million and an anticipated provision by the Cocoa Marketing Board from its reserves, ¢50.0 million. (See page 2 of 2nd Development Plan). The total amount of ¢180.0 million was barely adequate to cover the "small coat" plan. It was expected that the remainder would be found in the form of loans from abroad as stated in Economic Survey, 1957, paragraph 23.

45. The Second Development Plan - a five year plan - was to have ended on 30th June 1964 but was terminated in 1963 in favour of a Soviet modelled Seven Year Development Plan which had very much impressed Dr. Kwame Nkrumah.

Table 5.6 SECOND DEVELOPMENT PLAN, 1959 - 1963

(1)	Esti-mates (2)	%	Expen-diture (3)	%	(3) as % of (2) (4)
Industry and Trade	50,662	10.4	54,908	15.3	108.4
Agriculture Forestry, etc	49,336	10.1	21,234	5.9	43.0
Education	55,704	11.4	33,090	9.2	59.4
Health and Sanitation	47,000	9.7	18,994	5.3	40.4
Other Social Services	10,000	2.1	2,100	0.6	21.0
Housing	34,000	7.0	23,294	6.5	68.5
Public Administration	27,704	5.7	7,680	2.1	27.7
Police & Prisons	15,354	3.2	5,458	1.5	35.4
Broadcasting	5,354	1.1	4,756	1.3	88.8
Roads	50,424	10.4	-	-	-
Railways & Internal waterways	27,314	5.6	-	-	-
Tema Harbour	5,000	1.0	80,054	22.3	160.11
Airports & Airplanes	8,008	1.6	-	-	-
Shipping	2,530	0.5	-	-	-
Other Transport	3,222	0.7	-	-	-
Post & Telecommunications	9,522	2.0	-	-	-
Electricity	17,530	3.6	-	-	-
Water & Sewerage	40,300	8.3	8,896	2.5	22.1
Tema Township	-	-	8,218	2.3	.....
Volta	200	0.0	40,906	11.4	20,453.0
Defence	-	-	20,958	5.8	—
Miscellaneous	27,368	5.6	28,268	7.8	3.3
Total	486,532	100	358,814	100	73.8

Note: 1. A Plan originally meant for the period 1st July, 1959 to 30th June, 1964, but terminated in 1963 and replaced later by the Seven Year Development Plan.

2. Arrangement & Breakdown of details in the table are after the pattern adopted by G.B. Kay, opcit. in order to permit comparison with Tables 5.1 and 5.5

Sources: Ghana Government, Second Development Plan, 1959-64, Accra and Treasury Reports, Accra

(viii) Digression on appropriate strategy for developing infrastructural facilities in economic development: In the Lewis Report it was recommended that the improvement of the public services, besides reducing the cost of manufacturing in the country, would "automatically attract new industries, without the government having to offer special favours".[46] It is interesting from the standpoint of the theory of economic development to note that this view of Prof. Lewis has turned out to be at variance with the development strategy which Prof. A.O. Hirschmann has prescribed for the provision of social overhead capital (SOC.). In keeping with his unbalanced growth philosopy, Hirschman holds that in supplying SOC, the government should prefer the "development via shortage" approach to that of "development via excess capacity". The reason he advances for this is that SOC which is provided as a "pre-requisite" for further development merely permits or invites, but in no way compels what are termed directly productive activities (DPA) to be undertaken consequentially by the private sector.[47] He holds that in actual practice the pressure-relieving function of the government "is predominant in the many countries where development through market forces has made rapid strides".[48]

The Lewis Report was submitted long before Hirschman made known his strategy of economic development. However, from the high proportion of total expenditure devoted to infrastructure and public services under the various development plans, as shown in Table 5.7 it becomes evident that Prof. Lewis's view on the government's responsibility for providing infrastructural facilities as a pre-requisite for attracting private industrial investors continued to have much influence for some time.

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46. The Lewis Report, para.254

47. See - A.O. Hirschman, The Strategy of Economic Development, Yale University Press, 1959, Chapters 5 and 11 passim.

48. Ibid. p.203

Table 5.7 SECTORAL EXPENDITURE AS A PERCENTAGE OF TOTAL EXPENDITURE UNDER THE VARIOUS DEVELOPMENT PLANS

	1ST DEVELOPMENT PLAN	CONSOLIDATION DEV. PLAN	2ND DEVELOPMENT PLAN
Agriculture	5.5	5.2	5.9
Industry & Mining	3.5	8.1	15.3
Infrastructure & Public Services	45.5	44.8	36.2
Education	13.9	9.7	9.2
Health & Other Social Services	12.7	13.0	16.0
Central Government	18.9	12.2	17.4
Total	100.0	100.0	100.0

Sources: From Tables 5.1, 5.5 and 5.6

Towards the closing years of the First Development Plan, experience did not support Prof. Lewis's point that the provision of SOC by the government would automatically attract new industries into the country. Rather in spite of all the public services that were made available and the assurances given to private investors, industrial expansion took place far too slowly. But this unsatisfactory development was later ascribed by Prof. Lewis to a different cause. In an address to the Economic Society of Ghana in 1959 he said:

> ".... I think that Ghana's experience under the First Development Plan proves my proposition that policy is more important than expenditure. Very large sums of money were spent by the Government but since the industrial, agricultural, mining and housing policies were inappropriate, very little increase in productive capacity resulted from these large expenditures. There was remarkable increase in public facilities, such as roads, schools, electric power, water supplies, and so on, but remarkably little increase in the output of commodities." 49

49. W.A. Lewis, "On Assessing a Development Plan" in Economic Bulletin of Ghana, Vol.3 Nos 6-7 1959, reprinted in I.Livingstone (ed) Economic Policy for Development, Penguin, 1971 pp.405-417.

In view of the fact that the measures which the Government took in order to attract private investors into the country were in line with Prof. Lewis's own advice it seems then that his criticism was somewhat unkind. As a matter of fact when SOC is undertaken as a pre-requisite for DPA it is not easy to determine during the period of its provision whether it has become excessive or it is still inadequate or is just right. It is only in the light of the subsequent development of DPA that an evaluation of its extent can be made.[50] It seems that any government that wishes to avoid being criticised of having provided excessive SOC when satisfactory amount of DPA does not emerge has only one other approach to adopt and that is Hirschman's "filling-in" strategy.

On the question of public ownership it was indicated by Prof. Lewis in his report that a government could properly go beyond the provision of SOC and engage in DPA for the purpose of pioneering, where private entrepreneurs for lack of either experience or confidence are prevented from investing.[51] This view is also subscribed to by Hirschman. As he puts it:

> ".... in under-developed countries purely permissive sequence may be ineffective in inducing growth; and that in some cases the government may well have to take the first step in the more compulsive sequences that may be indicated, for example, through active leadership and industrialization." 52

In dealing with the pioneering role of the government in achieving successful industrialisation Prof. Lewis cited the Japanese experience. There the government adopted the policy of handing-over industrial enterprises

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50. As an economic advisor to the Ghana Government at the time the Second Development Plan was under preparation Prof. Lewis, who was not a member of the Planning Committee, was trying by this criticism trying to persuade the Government to increase the allocation to the industrial sector under the plan and to participate in it.

51. W.A. Lewis, Industrialisation and the Gold Coast, op.cit pp.110 - 12

52. A. O. Hirschman, op.cit. p.203

to private owners once the ventures had been successfully established. The government's pioneering efforts in setting up DPAs was to provide experience and confidence where they were lacking. In the case of Ghana the government would have had to rely on foreigners to provide the experience. But it appears that because of the unfavourable views of industrial prospects in a tropical country like Ghana, then being widely held in industrialised countries,[53] foreign investment in the country's manufacturing sector took place at a very low level.

According to this view one cannot therefore unreservedly ascribe the failure of the country's manufacturing sector to expand as rapidly as one would have wished to the pursuit of inappropriate policies rather than to the adoption of a strategy of economic development that was not just right. It would appear that for an economy to secure the appropriate SOC-DPA mix the objective should be "to obtain increasing outputs of DPA at minimum costs in terms of resources devoted to both DPA and SOC.

(ix) <u>The Plans, Trade Liberalisation and Dwindling Foreign Exchange Reserves</u>

Soon after it attained complete independence Ghana became a contracting party to the General Agreement on Tariffs and Trade and in conformity with the rules and regulations of the organisation it started to initiate changes in its trade policy. Multilateral trade on non-discriminatory basis was opted for and in consequence the country undertook a gradual dismantling of the machinery of import licensing which had been in operation since the beginning of the second world war. The process of trade liberalisation was undertaken with such resolution that by 1959 all imports from dollar sources had been placed on Open General Licence with the major exception of such items as explosives, arms and ammunition, tobacco, cinematographic films and petroleum products. Even with respect to these goods, approved

53. See - Chapter 6 for the views once held on the appropriate places to process tropical products.

quantities could be procured from abroad with the grant of Specific Import Licence.

Commercial transactions with Japan, one of the country's important suppliers from outside the Sterling Area, were on a slightly different footing. Ghana's merchandise imports from Japan were classified into two categories, one comprising all kinds of industrial machinery and the other embracing all other goods. By 1959 all items in the former category had been put on Open General Licence, but items of the latter category continued to be dealt with by specific licensing, though on more liberal terms than before.

By 1960 further advances in the liberalisation process had resulted in the virtual removal of all controls on the importation of goods from all dollar sources. Remnants of controls continued to be exercised either for security reasons (as in the case of ammunitions) or intended for the achievement of a fairer distribution among importers of scarce consumer goods like sugar which could be obtained only through the system of international agreements.

The motivating factors behind Ghana's trade policy after 1957 can, in brief, be said to be due partly to the country's desire to abide by the rules and regulations of GATT after it had become a member and partly to an inherent urge to rid itself of the colonial trade policy which had been pursued by the British when they exercised political control over the country. In the process of trying to act in consonance with its newly found status the country felt that the direction of the policy being followed was what its citizenry would like to have.

The complete or partial removal of quantitative restrictions from the goods imported from certain countries can be regarded as a move in the direction of free trade. However, whilst measures which are adopted by many nations acting in cooperation in order to move to a free trade position are regarded with favour because such a position is held to produce an optimization of trade and a maximization of world production,[54] the same measures may not produce the same results when they are undertaken by an individual nation acting single-handedly and their adoption in such circumstances has to be considered carefully. Considerations of this nature should have led Ghana, in view of the high cost of imports, it was incurring under its development plans, to adopt a <u>modus vivendi</u> which could have permitted it to conveniently align its existing trade policy to the organisation's rules and regulations.

It is generally held that the primary consideration which prompts less developed countries to pursue protective trade policies is usually the defence of the balance of payments position.[55] and this consideration becomes over-riding during the implementation of a development programme. As indicated earlier on, in this situation the demand for imported capital goods for development purposes increases and this calls for measures for the husbanding of the available foreign exchange reserves.

From Ghana's import and export performance as shown in Table 5.8 it appears that it would have been preferable if the country had not undertaken a precipitated action to dismantle the remnants of its system of quantitative restrictions shortly after it had attained political independence.

The figures in column (4) of Table 5.8 shows the country's deteriorating balance of trade position after 1954 and those in columns (2) and (3) show the trends in the value of the contributory factors, viz. exports and imports. Whereas export earnings declined from ¢229.2 million in 1954 to ¢173.2 million in 1956, expenditure on imports steadily rose in the same period from ~~¢175.8~~ ¢142.1 million to ¢177.8 million. The favourable trade balance of 1954

54. See J.E. Meade, <u>The Theory of International Economics Policy</u>. Vol.II chapter IX O.V.P. London, 1955

55. See for example, C.P. Kindleberger, <u>Economic Development</u>, McGraw-Hill, New York, 1958, p.317

Table 5.8 GHANA'S BALANCE OF TRADE FROM 1954-1960

Year	Imports	Exports Including Re-exports	Balance of Trade
(1)	(2)	(3)	(4)
1953	147.6	179.9	32.3
1954	142.1	229.2	84.1
1955	175.8	191.3	15.5
1956	177.8	173.2	-4.6
1957	193.4	183.2	-10.2
1958	169.2	209.1	39.9
1959	226.0	226.7	0.7
1960	259.2	232.0	-27.2

Sources: Ghana Economic Surveys, 1958 - 1959 and Ghana Trade Report, Vol.II, 1959 & 1960 by Central Bureau of Statistics, Accra.

decreased rapidly from ¢84.1 million and then turned into a deficit of ¢4.6 million in 1956, the first balance of trade deficit to be registered since 1937.

A rise in export earnings of about ¢10.0 million over the previous year's figure occured in 1957, but because the import bill rose by a bigger magnitude in the same period a bigger visible trade deficit of ¢10.2 was recorded in 1957. On the other hand, 1958 proved to be a good year for merchandise trade; a favourable trade balance of ¢39.9 million was recorded that year through a drop over the previous year of about ¢24.0 million in imports and an accompanying rise of about ¢26.0 million in exports. In subsequent years, however, a secular deterioration in the balance of visible trade set in.

The stagnation in Ghana's export earnings was caused by fluctuations in the world price of cocoa, a commodity on which the country had grown to depend heavily on for its foreign exchange earnings. In contrast, the value as well as the volume of imports of the same period kept rising and this, according to the Economic Survey, 1957, (paragraph 13), was primarily caused by three factors, namely, government expenditure, Cocoa Marketing Board's payments to cocoa farmers and private capital formation. For our analysis some consideration will be given to the first and last of these factors.

As shown in Table 5.9 the total government expenditure during the 1951-52 financial year was about ¢50.0 million. This shot up to slightly over ¢142.3 million in the 1955-56 period and after a subsequent decline it rose to about ¢176.0 million in the 1959-60 financial year. There were also increases in revenue, but these were nonetheless not as great as those in expenditure. In the 1951-52 financial year the revenue was just under ¢78.0 million; it rose to about ¢129.0 in the 1955-56 financial year and then to a little above ¢140.0 in the 1959-60 fiscal year.

The expansion of the government's revenue vis-a-vis that of its expenditure is best shown by means of index numbers which are presented in the table with the financial year 1946-47 as the base year. Whereas by the 1959-60 financial year the index for expenditure had reached 1,328.0, that for revenue had got up to only 928.0. This reflected the Government's inability to obtain more income as rapidly as its increasing commitments demanded. A comparison between the figures of yearly revenue and expenditure as given in the table shows that with the exception of the 1947-48 financial year there was an annual excess of revenue over expenditure up to the 1954-55 financial year, but since then deficits were incurred in every year. The high level of expenditure in the later years, as contrasted with the relatively inadequate revenue, gave an indication of the Government's resolve to maintain its high level of development expenditure regardless of the deficits and this form of expenditure is expressed in the last column of the table as a percentage of the Government's total expenditure. The figures in the column show a sharp rise after the 1951-52 financial year which marked the

Tablo 5.9 CENTRAL GOVERNMENT REVENUE AND EXPENDITURE

1946-47 - 1959-60

₵'000

Year	Revenue	Index	Expen-diture	Index	Surplus(+) OR Deficit(-)	Development Expenditure As A % Of Total Expen-diture
1946-47	15,136	100.0	13,260	100.0	+1,876	13.0
1947-48	20,492	135.4	20,932	165.4	-3,740	11.0
1948-49	23,278	153.8	22,976	173.2	+ 302	8.0
1949-50	36,212	239.2	28,288	213.3	+7,924	10.0
1950-51	41,722	275.6	35,668	269.0	+6,054	12.0
1951-52	77,858	514.4	50,020	377.2	+27,838	28.0
1952-53	85,930	567.4	77,454	584.0	+8,568	36.0
1953-54	100,896	666.6	99,630	751.4	+1,866	32.0
1954-55	160,702	1,068.3	95,424	719.6	+66,278	38.0
1955-56	128,896	851.6	142,322	1,073.3	-13,346	41.0
1956-57	99,482	657.3	120,996	912.5	-21,514	35.0
1957-58	120,406	795.5	127,500	961.5	-7,094	34.0
1958-59	134,018	885.4	156,696	1,181.7	-22,678	39.0
1959-60	140,462	928.0	176,086	1,328.0	-35,624	33.0

Sources: C.B.S. Economic Survey, 1963; Bank of Ghana's Annual Report, June 1964 and Treasury Reports, Accra, various issues.

inauguration of the First Development Plan.[56]

Another important determinant of the country's imports is capital formation in the private sector. Because the country has no capital goods industry, almost all the requirements for capital development has to be imported. Table 5.10 shows the yearly values of capital formation by the private sector for the period 1951-59. For purposes of comparison the Government's share of the country's total is also shown.

It can be seen that at the beginning of the 'fifties the contributions by the Government were much smaller than those made by the private sector; however, its portion rose to nearly half of the total in 1956. A decrease, however, took place after the formal ending of the First Development Plan in 1956,[57] but the trend was sharply reversed when the Government started once again to devote more resources to capital formation when the Consolidation Plan was implemented.

The extent and manner in which the country's structure of imports was affected during the 1957-60 period by the programme of capital formation is shown in Table 5.11 in terms of both the percentage distribution of the yearly value of imports and the corresponding annual percentage change in value.[58] Besides food the most important categories of imports, in terms of value, were machinery including transport equipment and "manufactured goods classified chiefly by material." Of the latter, textile yarn and fabrics

56. As the largest single employer in the exchange sector the Government's expenditure is of great importance in influencing the import of both consumer and capital goods. The extent it affected the latter is discussed below.

57. The First Development Plan is generally considered to have formally ended in 1956, as was requested by the CPP government, though Nkrumah told the National Assembly in 1958 that it officially ended in June 1957.

58. A third important determinant of imports is considered to be the payments made to farmers by the Cocoa Marketing Board. The effect of such payment is generally believed to be on consumer goods.

Table 5.10 COMPOSITION OF GROSS DOMESTIC CAPITAL FORMATION AT CURRENT MARKET PRICES BY TYPE OF PURCHASE

	1951	1952	1953	1954	1955	1956	1957	1958	1959
1. Fixed capital formation	41.8	54.4	59.8	77.8	85.0	90.6	86.6	81.4	127.2
(a) Private Sector	24.2	27.4	30.8	38.8	42.6	51.8	50.8	49.0	67.8
(b) Government	17.6	27.0	29.0	39.0	42.4	38.8	35.8	32.4	59.4
2. Increase in stocks	3.2	-0.2	-5.2	5.8	5.6	0.8	-2.2	-0.8	31.6
Gross Domestic Capital Formation	45.0	54.2	54.6	83.6	92.6	91.4	84.4	80.6	158.8

Note: Data on fixed capital formation by type of purchases (i.e. by the Government and the private sector) were made available for the last time by the Central Bureau of Statistics in the Economy Survey, 1959. Since then figures on capitalisation have been given on the basis of type of asset and have been revised as from 1955. For this reason the unrevised data in this table do not agree with those in Table 5.12. The figures on the Government sector in this table still hold good for analysis.

Source: U.N. Yearbook of National Accounts Statistics and Ghana Economic Survey, 1959, Accra.

Table 5.11 PERCENTAGE DISTRIBUTION OF VALUE OF YEARLY IMPORTS FROM 1957 TO 1960 OF MAIN COMMODITY GROUPS AND PERCENTAGE CHANGE OF EACH GROUP OVER PREVIOUS YEAR'S IMPORTS.

ITEMS ARRANGED BY SITC	PERCENT OF TOTAL VALUE OF IMPORTS				PERCENTAGE CHANGE IN VALUE FROM		
Section	1957	1958	1959	1960	1957 to 1958	1958 to 1959	1959 to 1960
0. Food	18.0	17.4	16.5	16.2	-15.9	30.3	9.9
1. Beverage & Tobacco	4.1	4.4	3.8	2.9	- 4.9	14.4	-11.3
2. Crude materia -ls, inedible except fuel	0.4	0.6	0.4	0.3	25.6	-19.5	-7.9
3. Mineral fuels	7.1	7.4	5.6	5.2	-8.3	0.5	7.6
4. Animal and vegetable oils	0.2	0.2	0.1	0.2	15.7	-27.1	5.9
5. Chemicals	7.4	7.8	8.0	7.3	8.1	36.0	5.9
6. Manufactured goods classified by materials							
(i) Textiles	20.6	17.4	15.7	15.2	-26.2	21.6	10.2
(ii) Other	15.0	16.9	16.5	15.5	- 1.7	29.9	8.0
7. Machinery & transport equipment	17.1	17.9	22.7	26.0	- 8.0	68.6	31.7
8 Miscellaneous Manufactured articles	8.3	8.2	8.9	9.8	-13.5	45.9	24.8
9 Miscellaneous transactions	1.8	1.8	1.4	1.4	14.1	7.8	11.2
Total	100.0	100.0	100.0	100.0	-12.5	33.6	14.7
Total Value (₵'m)	193.4	169.2	226.0	259.2	Percentage Change in Price		
					-1.0	-0.2	-0.2

Sources: Statistical Year Book, 1960 and 1962 issues.
Economic Survey, 1958. Central Bureau of Statistics, Accra.

constituted the dominant subgroup, with a wide variety of intermediate products included in the rest.

With reference to the period shown in the table the value per annum of imported machinery and transport equipment ranged between 17 and 26 per cent of the total for all imports and on the average ranked first among the classified groups of imports. Textile products came next, ranging between 15 and 21 per cent. With regard to the trend of the percentage shares of the total yearly values, there was a sharp contrast between the two. Whereas that for textile fell steadily throughout the period, that for machinery exhibited a constant rise. The falling trend in the percentage share of textile products did not represent a decrease in their absolute annual values which in fact, more or less remained stagnant because of the rising trend in the value of total imports.

Concerning the year to year percentage change in import values, the highest overall figures were recorded by machinery and transport equipment; they were 68.6 per cent from 1958 to 1959 and 31.7 per cent from 1959 to 1960. The next highest overall figures were registered by the "miscellaneous manufactured articles" group with 45.9 per cent and 24.8 per cent for the two year to year changes respectively.

The value of total imports recorded the greatest percentage increase in 1959 when the change was of the order of 33.6. This contrasted sharply with the previous year's decline of 12.5 per cent attributable to the formal ending of the First Development Plan.

One of the weaknesses of Ghana's external trade performance has been the annual occurance of deficits in its invisible trade balance. In the fifties this was never less than Ø20.0 million a year and whenever the visible trade balance was less than this, then the outcome was a deficit in the current account balance. In the absence of an adequate inflow of private capital or foreign aid, whenever such a situation occured - as indeed it did take place in the 'fifties - the only alternative left to the Government was to fall on the country's foreign exchange reserves in order to settle its external indebtedness.

The country's foreign exchange position from 1951 to 1961 is shown in Table 5.12 together with the corresponding balances on current account and the expression of the reserves as a percentage of total imports. The changes in the level of the reserves can be interpreted as the result of the impact caused by the combined effects of the post-1957 trade liberalisation measures, increasing imports, tardy expansion of exports and accelerated development programmes.

The last column of the table shows the amount of the country's foreign exchange reserves in proportion to the value of its yearly imports. Because the reserves were maintained at a high level in the early 'fifties, even to the point of inviting criticisms from some foreign commentators,[59] their percentage in terms of the yearly value of imports was over 200, but after the initiation of the post-independence accelerated development programmes the percentage rapidly decreased. The low figure of 51.2 per cent for 1961 was a precursor of the lower figures which were obtained during the rest of the 'sixties.

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59. The amount of foreign exchange reserves which were held by the country mostly in foreign countries were considered by some during the mid-fifties to have grown too large. The reasons were as follows: First, there were those who subscribed to the view that the Cocoa Marketing Board's reserves formed an appreciable proportion of Ghana's assets held abroad and therefore thought that since the CMB reserves were intended for stabilising the producer price of cocoa at a reasonable level against price fluctuations on the World market, the mounting reserves implied that the producer price had been fixed at too low a level and therefore needed to be raised to a level that would permit the reserves to play its stabilisation role without increasing unduly. Second, there were others who could not understand why the country's assets should accumulate abroad when it required funds to finance its development programme.

Table 5.12. GHANA'S BALANCE ON CURRENT ACCOUNT, FOREIGN EXCHANGE RESERVES, AND RESERVES AS PER CENT OF TOTAL IMPORTS 1951-1961

Year	Balance on Current Account	Foreign Exchange Reserves	Imports	Foreign Exchange Reserves As % of Imports
	IN MILLION CEDIS			
1951	+38.6	244.4	127.6	215.0
1952	+23.0	290.2	133.2	217.9
1953	+10.4	320.2	147.6	216.9
1954	+81.4	394.8	142.1	277.8
1955	+ 3.6	416.4	175.8	236.9
1956	-26.6	379.6	177.8	213.5
1957	-28.8	342.8	193.4	177.2
1958	+21.6	355.2	169.2	209.9
1959	-22.6	333.6	226.0	147.6
1960	-67.0	297.2	259.2	114.7
1961	-105.3	146.2	285.6	51.2

Sources: CBS, Economic Surveys, Accra various issues, Ghana Trade Reports, Accra various issues, and External Trade Statistics, 1961, Accra.

(x) The effects of the development programme on the country's imports and fixed capital formation

For analytical purposes it would be worthwhile if the extent to which the country's value of imports and capital formation were affected by the industrialisation programme under the development plans could be ascertained. With the aid of the inter-sectoral accounts for 1960 as shown in Table 5.13 and the fixed capital formation figures for the same year as shown in Table 5.14 some idea of the dimensions of these two aspects

Table 5.13 THE INTER-SECTORAL ACCOUNTS, 1960 ¢'Million

(2) ...restry	(3) Cocoa	(4) Mining & quarrying	(5) Manufa-cturing	(6) Elec-tricity	(7) Const-ruction	(8) Fuel	(9) Public Utili-ties	(10) Services	(1) - (10) Total	Exports	Private Consum-ption	Public Consu-mption	Gross Capital Formation: fixed	Gross Capital Formation: increase in stocks	Grand Total
-	-	-	0.6	-	-	-	-	7.4	8.0	3.6	163.8	0.4	-	-	175.8
-	-	0.2	11.2	-	-	-	-	-	11.4	16.8	13.8	-	-	0.2	42.2
-	-	-	4.2	-	-	-	-	-	4.2	72.0	-	-	-	16.2	92.4
-	-	-	-	-	1.2	-	-	-	1.2	53.8	-	-	-	-0.6	54.4
.2	1.4	0.8	-	-	8.2	-	0.4	2.2	13.2	14.2	18.8	1.0	0.8	4.8	52.8
-	-	0.8	0.4	-	0.2	-	0.2	0.6	2.2	-	1.8	0.8	-	-	4.8
-	-	-	-	-	-	-	-	-	-	-	-	9.4	122.4	-	131.8
.6	-	2.2	1.0	1.8	3.8	-	1.8	11.0	22.2	-	6.4	0.6	-	-	29.2
-	-	0.2	0.6	-	0.4	0.6	-	2.0	3.8	8.0	7.8	1.6	0.6	0.4	22.2
.2	-	1.0	4.0	-	7.2	0.2	2.4	-	15.0	23.4	294.6	21.4	8.2	1.4	364.0
.0	1.4	5.2	22.0	1.8	21.0	0.8	4.8	23.2	81.2	191.8	507.0	35.2	132.0	22.4	969.6
.6	-	4.0	12.0	0.8	24.2	13.6	1.8	25.8	83.4	2.4	137.2	9.2	64.2	-	296.4
-	-	0.4	2.4	-	1.4	7.8	-	0.6	12.6	51.0	34.6	-	1.8	-	100.0
-	-0.8	-	-	-	-	-	-	-	-0.8	-	-0.8	-	-	-	-1.6
.6	91.8	44.8	16.4	2.2	85.2	7.0	15.6	314.4	795.2	-	-	47.8	-	-	841.0
.2	92.4	54.4	52.8	4.8	131.8	29.2	22.2	364.0	969.6	245.2	678.0	92.2	198.0	22.4	2,205.4

* Goods and non-factor services

Source: W. Birmingham et. al. A Study of Contemporary Ghana, Vol.1, Allen & Unwin, London, 1966, p.64

of the economy can be roughly, if not precisely, acquired.[60]

The items which were directly affected by the industrialisation programme were manufacturing, fuel, electricity, services and fixed capital formation and of these the following observations can be made:

(a) Manufacturing:[61] In 1960 the inputs of the manufacturing sector which were directly imported amounted to ₵12.0 million. The impact it exerted on the imported inputs of fuel, electricity and services will be dealt with under the respective items. The proportion of fixed capital formation which took place on account of the manufacturing sector cannot be determined from the input-output table because of the broad categories in which the table is presented. The construction sector's output going into the manufacturing sector is regarded as a final demand and therefore does not appear in the inter-industry section of the inter-sectoral accounts table. In Table 5.14 which shows the country's gross capital formation by type of asset for the period 1958 to 1960 a separation is made between buildings and construction, on the one hand, and plant machinery and equipment, on the other, but the table does not distinguish between factory buildings and plant and machinery for manufacturing purposes.

(b) Fuel and Electricity: The import requirements of the fuel and electricity sectors amounted to ₵13.6 million and ₵0.8 million respectively in 1960, which combined was about 4.9 per cent of the total value of the country's imports for that year (ie., ₵296.4 million). Imported inputs constituted 46.6 per cent of the total output of the fuel sector and 16.7 per cent of the electricity sector. 22.6 per cent of the output of the fuel sector was used as inputs by the manufacturing, electricity and construction sectors combined and the activities

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60. The bases used in calculating the components of Table 5.13 are outlined in the appendix to R. Szereszewski's "The Sectoral Structure of the Economy, 1960" in W. Birmingham et al." A study of Contemporary Ghana" Vol.1 op cit. pp.80-84. The explanation given there throws light on the discrepancies which exist between some of the date in Table 5.13 and 5.14.

61. Data for manufacturing are based on information concerning establishments of which each employs 10 or more people. This, therefore, leads to the under-reporting of the sector's actual size in the economy.

of these sectors therefore accounted for 22.6 per cent of the value of the fuel sector's imports which was equivalent to nearly ¢3.1 million. Similarly, it can be found that the manufacturing, and construction sectors accounted for 12.5 per cent of electricity sector's imports and this was about ¢0.1 million.

(c) Construction: The imports requirements of this sector amounted to ¢24.2 million. The sector was very much involved in the industrialisation programme and much of its inputs, in the form of raw materials and intermediate products originated from outside. The value of the imported inputs was about 8.2 per cent of the country's total value of imports for that year. Of the sector's total output of ¢131.8 million, about 92.9 per cent (i.e. ¢122.4 million) went to "fixed capital formation."

(d) Services sector: The output of this sector was mostly for private consumption and this, as shown in Table 5.13 was ¢294.6 million out of a total of ¢364.0 million (i.e. about 81.0 per cent). The value of the sector's imported inputs was ¢25.8 million, about 8.7 per cent the total value of imports for the whole economy. Since private consumption claimed a very high proportion of the output of the services sector it can be argued that the industrialisation programme claimed only a small share of the imported inputs of the sector. But analysing simply in terms of proportionate shares might be misleading. Around 1960 there was a great demand for high-level man-power in the form of highly skilled technicians and engineers as a result of the economic development programme and most of the required top-level personnel came from abroad. The import-output table shows that the sector acquired ¢25.8 million worth of imported inputs in 1960. Much of this must have gone into the ¢15.0 million worth of services used in the inter-industry sector where highly skilled technicians and top-level personnel were needed. The manufacturing sector's ¢4.0 million worth of service inputs and construction sector's ¢7.2 million requirement must to a great extent have occasioned the imported inputs of the service sector.

(c) Fixed Capital Formation: In 1960 the value of imports that went into fixed capital formation was ₵64.2 million and this was about 21.7 per cent of the total value of imports for the year. The two major components of fixed capital formation are construction and plant and machinery. Since the import requirements of the construction sector are given separately, the items that constituted the imported components of fixed capital formation were plant, machinery and equipment. From Table 5.14 it can be seen that from 1958 to 1960 fixed capital formation increased by 84.2 per cent from ₵115.0 million to ₵211.8 million. Table 5.14 shows that during this period "building" constituted between 51.8 and 60.7 per cent of fixed capital formation and "other construction" between 5.5 per cent and 10.8 per cent. Plant machinery and equipment constituted between 21.0 per cent and 31.8 per cent of the yearly totals for the period and on the basis of the 1958 figure the increase in absolute value from 1958 to 1960 was 178.5 per cent. The rapid increases in capitalization were a reflection of the accelerated tempo that characterised the implementation of both the Consolidation and the Second Development Plans.

The programme for economic development after 1957 was highly geared to industrialisation; the building of the port at Tema, the construction of railways and motor roads and other similar activities were all primarily intended to facilitate the realisation of the country's industrialisation objectives and as the analysis has shown the economic sectors involved in the programme made great demands on the import sector.

(xi) The High growth rates of the late 'fifties and their cost. The economy of Ghana attained a high level of growth rate in the late 'fifties and sustained it into the early sixties. If the 1955 gross domestic product at 1960 prices (₵710.0 million) is taken as 100, the level of GDP in real terms for the period 1955 to 1960 was as follows:[62]

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62. The figures are based on a Table on Ghana's industrial origin of the GDP given in the Walter's Report and quoted in W. Birmingham et al. op.cit. Table 2.11

Table 5.14(a) GROSS CAPITAL FORMATION BY TYPE OF ASSET, 1958-60

¢'million

	1958		1959		1960	
Building and construction	82.2		96.6		128.6	
Building		69.8		81.4		117.0
Other construction works		12.4		15.2		11.6
Plant, Machinery & equipment	24.2		46.0		67.4	
Transport equipment		11.2		24.4		36.4
Other machinery & equipment		13.0		21.6		31.0
Other Fixed assets	8.6		14.4		15.8	
Gross domestic fixed capital formation	115.0		157.0		211.8	
Increase in stocks	-1.6		+30.0		+20.0	
Gross capital formation	113.4		187.0		231.8	

The percentage distribution was as follows:-

Table 5.14(b) PERCENTAGE DISTRIBUTION OF FIXED CAPITAL FORMATION 1958 - 1960

per cent

	1958		1959		1960	
Building and construction	71.5		61.5		60.7	
Building		60.7		51.8		55.2
Other construction works		10.8		9.7		5.5
Plant machinery & equipment	21.0		29.3		31.8	
Transport		9.7		15.5		17.2
Other machinery and equipment		11.3		13.8		14.6
Other fixed assets	75.5		9.2		7.5	
Total fixed capital formation	100.0		100.0		100.0	

Source: C.B.S., Economic Survey, 1960, Accra 1961, Tables 6 & 7

1955 = 100

1956 = 105.9

1957 = 109.3

1958 = 107.6

1959 = 122.0

1960 = 132.1

The increase of 32.1 per cent in the five year period indicated amounted to an average compound annual growth rate of 5.7 per cent. As can be seen upon examination of the figures, the pattern of growth was cyclical; there was a rise at different annual rates from 1955 to 1957; this was followed by a fall of 1.7 per cent between 1957 and 1958 and then there was another rise consisting of two annual increases, also of different magnitudes, between 1958 and 1960.

The causes and the subsequent effects of the high level of growth rates which were attained during the implementation of the plans are subjects worth considering. After the First Development Plan had been telescoped from a ten-year to a five-year programme an increase in most of the components of the gross domestic product inevitably occurred. The rate of increase was, however, more pronounced in the case of some components than in others. In current market prices capital formation nearly doubled by increasing from ₵54 million in 1952 to ₵104 million in 1955 and then again rose to ₵194 million in 1960 by again nearly doubling.[63] (See Appendix D1). In 1952 it was only about 11.0 per cent of the gross domestic product, but by 1955 it had risen to just over 15.0 per cent and then to just over 20.0 per cent by 1960. The rise in general government consumption expenditure was also somewhat marked; it was ₵29.0 million in 1952, ₵52.0 million in 1955 and ₵96.0 million in 1960. In proportionate terms it rose from about 6.0 percent of GDP in 1955 to 7.6 per cent in 1955 and then to 10.0 per cent in 1960.

The increase in the two components did not occur at the expense of private consumption expenditure which in absolute terms constantly kept rising.

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63. The analysis is being undertaking here in current market prices as they show the right magnitudes of impact on the balance of payments.

It was 76.0 per cent in 1951 and about 78.0 per cent in 1960, with the figures for the intervening years not varying much from these two.

Besides earnings from cocoa, the main income generating factor of the economy was the expenditure of the central government. However, the growth effect of such expenditure depended on whether or not the object of expenditure was productive capital investment. As can be seen from Table 5.10 fixed capital formation by the Government increased from ¢17.6 million in 1951 to ¢42.4 million in 1955, an increase of about 141.0 per cent, and after declining for three years during the period 1956 - 1958, it substantially rose to ¢59.4 million in 1959.

The increases in resources which made possible the appreciable expansion of the domestic product, especially from the latter part of the 'fifties, were obtained from abroad as has been shown earlier on. What is worth noting in this connection is that the policy adopted by the Government for financing the additional resources secured from abroad resulted in a rapid decrease in the amount of the country's foreign exchange reserves (e.g. from ¢209.9 million in 1958 to ¢51.2 million in 1961) and considerably to the impairment of the country's ability to carry out successfully and without difficulty further economic development programmes in subsequent years. The Government's financial settlement policy initiated during the latter part of the 'fifties was to pay for current account deficits not by securing credits from abroad through foreign financial institutions but rather by running down the country's foreign exchange reserves. The alternative approach of matching development expenditure with in-coming revenue by scaling down its economic programmes where necessary was not countenanced.

The sharp rise in the value of imports was not equalled by the rate of expansion of export receipts which became a steadily declining proportion of the gross domestic product as from 1958. The relatively poor performance of the export sector was due to deteriorating terms of trade which in turn was caused by a long-run fall in the world market price of the country's principal export product, cocoa.

Ghana's foreign exchange reserves which rose to just over ₵400.0 million in the early 'fifties accumulated rapidly during the Second World War when consumer goods were very much in short supply. When the country's combined public consumption expenditure and fixed capital formation constituted only about 12.0 per cent of the gross domestic product at the beginning of the 'fifties no pressure was created on the foreign exchange reserves, but when the value of these two items put together rose sharply to around 30.0 per cent towards the close of the 'fifties stresses were created within the economy and the foreign exchange reserves had to take the brunt.

Because the amount of foreign assets was quite modest and could thus not witstand for long sustained deterioration, one wonders why the Government did not scale down its development programme when the dwindling of the foreign exchange reserves became apparent. No explanation was ever explicitly given by the Government though some can be inferred. The first is that the Government most likely felt that the deterioration in the country's terms of trade, occasioned by a fall in the world price of cocoa, would be only of a short duration. This hope, which indeed was nurtured in some government circles, appeared to be born of nothing but sanguine disposition as apparently the instability feature of the crop was not seriously reflected upon. The second explanation which can reasonably be advanced is that the Government was probably under the impression that the best way to achieve a rapid industrialisation was to set up many projects as quickly as it possibly could. The achievement of some measure of industrialisation would then make the country somewhat selfsufficient and consequently result in easing the pressure on the balance of payments. However, the mere setting up of factories, as shown in Chapter 9, does not amount to suffessful industrialisation.

A third explanation which would have appeared plausible before 1958 is that the Government probably felt that foreign exchange shortage would not arise; but this explanation is not tenable because the country adopted its own currency in 1958 and ceased from that time to be one of the countries under the control of the West African Currency Board, as it was when, for example, the Lewis Report was written.

(xii) The Second Development Plan gives way to the Seven-Year Development Plan.

As mentioned earlier on the Second Development Plan was suspended in late 1961 and subsequently replaced with the Seven-Year Development Plan in 1963. An examination of Table 5.6 will show that expenditure on many of the items was too small a proportion of what was planned for. This was because of the early suspension of the plan. In spite of this, however, the expenditure on " industry and trade" and Tema Harbour exceeded the amounts budgeted for them. "Industry and trade" exceeded its vote by only 8.4 per cent but the expenditure on Tema Harbour was 16 times its estimates. The overspending on the Volta Project as shown in column (4) is based on the estimate as shown in column (2), but not on the project's separate vote.[64] What can be said from the pattern of expenditure is that the Tema Harbour and the Volta Project were important infrastructural projects which were ancillary to the Government's industrialisation programme.

The Seven-Year Development Plan,[65] though started in the 1963/64 financial year properly belongs to the latter 'sixties. It was also abandoned by the new government soon after the 1966 coup. However the percentage distribution of the total cost to the major components of the plan is set out below in order to show how resolutely the Government pursued its

64. The Volta Project was given a vote of ₵200.0 million and this was separate from the ₵500.0 million for the Second Development Plan's "large coat" version.

65. Whereas the Second Development Plan dealt only with public expenditure during the plan period the Seven-Year Development took note of the private sector. For example investment by foreign enterprises were expected to average ₵34.0 million a year during the seven-year period.

programme of industrialisation under successive development plans:[66]

Industry, mining and trade	-	23.0 per cent
Agriculture and fishing	-	14.3 per cent
Infrastructure	-	18.7 per cent
Social services	-	31.6 per cent
Volta	-	7.1 per cent
Miscellaneous	-	5.3 per cent
Total	-	100.0 per cent

It is of interest to compare the 23.0 per cent for the Industry group under the Seven-Year Plan with the Second Development Plan's 10.4 per cent.

66. See Ghana Government, Seven-Year Development Plan, 1963/64 to 1969/70, Accra. p.27

CHAPTER 6

BEGINNINGS OF GHANA'S MODERN MANUFACTURING ACTIVITIES: THE STATE'S PIONEERING ROLE AND ITS EFFECTS

(i) The Government's pioneering agencies for promoting industrialisation:
Measures to promote industrialisation in Ghana were considered in the last chapter in terms of the overall setting of the country's economic development programmes. The object of this chapter is first, to recount the evolution of the early stages of the country's modern manufacturing activity itself, after the Government had, translated its resolve to have the country industrialised into measures that made environmental and other conditions attractive to would-be investors for the setting up of industrial projects; second, to outline the attendant circumstances which either facilitated or hindered industrial progress during the period and finally, to attempt to assess the extent to which the Government was able to achieve its industrialisation goals.

Soon after the conclusion of the second world war the colonial government set up in 1945 an Industrial Development Board with the object of fostering the development of local industries; as it turned out however, the activities of the Board consisted mainly of training carpenters to produce high class furniture and of helping to organise the weaving industry in a part of the country "on a business footing".[1] The promotion of local industries became a legal responsibility in 1947 when an ordinance for the creation of the Industrial Development Corporation (IDC) was passed. This new body was charged with the duty of "securing the investigation, formulation and carrying out of projects for developing industries in the Gold Coast."[2] The Corporation's responsibilities also embraced the promotion of local handicrafts.[3]

1. See - Gold Coast Annual Report 1946 (Government Printing Dept. Accra, 1947) p.45

2. See - The Gold Coast Industrial Development Ordinance 1947, Section 3(1). Though the ordinance was passed in 1947 according to the "Annual Report for the Gold Coast, 1948" the IDC was actually started on 1st May, 1948.

3. See - C.B.S. Economic Survey, 1952, Accra, paragraph 92

The move of the colonial government to promote the development of industries locally was in line with the view then being expressed by some economists that from the long-run point of view the development in predominantly agricultural countries should be balanced, in the sense that the development process should incorporate both the agricultural and the industrial sectors; this, despite the fact that the highest productivities can be obtained in agricultural economies during the early stages of growth by devoting resources to the development of the agricultural sector.[4]

In its early years the Industrial Development Corporation operated essentially as a loans board and in so acting spent a considerable proportion of its resources on the giving of loans to small local industrial ventures. It was reported that between 1948 and 1953 "most of the loans granted .... [went] to individuals for the furtherance of projects which [were] only of secondary importance to the economy."[5] During this period the enterprises to which assistance was mostly given were engaged in such activities as weaving, printing, brick and tile, cassava processing, furniture making, wood working, transportation, laundry and motor repairs. The Industrial Development Corporation; besides lending money, left the development of the industrial sector to private businessmen and in so doing failed to comply with the provision of the ordinance dealing with "securing the investigation, formulation and carrying out of projects for developing industries" in Ghana. Furthermore, with regard to the loans that were granted by the Corporation no supervision of any kind was exercised in order to ensure that they were being used for the ends for which they had been given.[6]

Failure of the Industrial Development Corporation to secure right from its inception investigations into matters relating to the development of industrial projects in the country was a serious blunder. This was

4. For an exposition of the "balanced growth" concept embracing both the agricultural and the industrial sectors see - W.A. Lewis "The Theory of Economic Growth" op.cit. pp.276-83

5. I.D.C. Annual Report for 1953, Accra, 1954

6. See - Lewis Report op.cit. paragraph 151-152

so for two reasons. First, though Ghana had been known to possess some handicraft industries such industries as were in existence were regarded by some authorities to be relatively insignificant[7] and the inference was that they could not be expected to serve as the base for the development of a modern industrial sector. Second, though it is held by some that countries industrialising late have the experience of Western Europe to copy from, it is nonetheless considered by others that this is not the case, for as one writer has expressed, the developing countries have to realise that they "cannot simply import the industrial revolution from abroad, uncrate it like a piece of machinery and set it in motion."[8] What this in effect implies is that the industrial revolution of Western Europe was the overall outcome of the socio-economic responses of the people to the sum total of the environmental challenges of their region; and because the cultural heritage and the socio-physical environment of the less developed countries are different in diverse respects from those of the West, a successful industrialisation programme in any of the latter cannot be based simply on the wholesale transfer of technology from abroad without some degree of modification.

The IDC's approach to industrial developed remained unchanged until after the publication of the Lewis Report. Soon afterwards, the Government announced certain policy measures which were based on recommendations contained in the Lewis Report and were intended, among other things, to rectify the deficiencies in the operations of the IDC. By the new measures the Corporation was obliged to establish on its own new industrial undertakings with the required capital and management provided entirely by itself; again it was permitted, where necessary, to enter into partnership with firms of proven ability either for the establishment of new industrial ventures or for the

7. Ibid. para.159. This view was at variance with that shared by the U.K. Colonial office which was that the village or traditional industries were numerous - vide U.K. Colonial Office "Economic Survey of the Colonial Territories, 1951, Vol.III (HMSO London, 1952) p.33

8. W.W. Lockwood, The Economic Development of Japan, Princeton University Press, 1968, p.499

expansion of those already set up.[9] The two categories were to be known as subsidiary and associated companies, respectively.[10] With these measures, the Government through the IDC moved over from a position of merely providing loans and infrastructural facilities for the benefit of private industrialists to that of directly participating in the establishment of modern manufacturing enterprises in the country. By so doing it acquired the ability to influence more effectively the pace at which it wished the industrial development to proceed. Accordingly, it also came face to face with problems involved in embarking upon industrialisation in a hitherto agricultural economy.

(ii) Ghana's manufacturing scene at the beginning of the '50s: At the beginning of the fifties Ghana's manufacturing sector was quite small, both absolutely and in comparison with the other sectors of the economy, and was also mostly made up of small non-factory type producing units owned and operated by indigenous artisans. Factory type manufacturing units were few and were all owned by foreigners, with the simple exception of the only canning plant in the country which was operated by the Department of Fisheries.[11]

In the absence of data concerning the value of output and services, it is in terms of the number of people employed that the relative significance of the sectors within the exchange economy at that time can be determined. By December 1951 the total number of recorded employment was 217,685. Of this only 11,273 (i.e. just under 5 per cent) were engaged in the manufacturing sector. That the direct participation of the Government during that period in the manufacturing activity of the country was appreciable small was indicated by the fact that of the recorded number employed in the manufacturing sector only 445 (i.e. just under 4.0 per cent) were engaged by public authorities.[12]

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9. I.D.C., Fifth Annual Report, 1953-54, p.5

10. A small loans section of the IDC was set up on 1st January 1954 to provide assistance to small indigenuous business in the form of cash loans for working capital and help to acquire plant and equipment. See C.B.S., Economic Survey, 1954, para.130.

11. C.B.S. Economic Survey, 1952, Accra, para.93

12. Ibid., Table 16, p.27

Modern manufacturing which the nationalist government was desirous of getting established in the country had then been adopted by just a few **firms** and these were nearly all owned by expatriates. Some of these (a lime juice processing factory and a cocoa butter and allied products manufacturing plant) were export-oriented and depended on locally produced raw materials, whilst others (a brewery and some soap producing enterprises) produced for the domestic market, but utilised imported raw materials.[13] In a special category was a salt producing firm which manufactured salt for the local market from local brine.[14]

To the export oriented producing units which specialised in working on locally produced raw materials can be included the Government's own Department of Fisheries which for some years engaged in the canning of sardinella and fruits (mostly pineapple) for overseas markets.[15]

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13. A point of interest is that among the early modern manufacturing industries to be established in Ghana were those manufacturing beer and cigarettes. Production of these products in Ghana began when the manufacturers concerned came to the view that local demand was sufficiently adequate to economically justify the production of the goods in the country.

The manufacture of beer in Ghana began in 1933, when a brewery which had been built in Accra by a Swiss firm went into operation. The basic raw materials were imported, but the firm believed that on the size of its initial operations its products could be sold at price which would compete favourably with imported brands. With respect to the tobacco industry its production activities began in the country in the early 1960s when a multinational firm which had had its products distributed for years in the country through commercial agents came to the view that its share of the Ghana market for tobacco products already justified the commencement of local manufacturing activities on profitable basis. Its decision was accordingly implemented.

14. The productive capacities of the modern manufacturing units about which statistics of the period (i.e. around 1954) are available are as follows: Brewery in Accra - 44 thousand hectalitres in 1953 (from the U.N. Statistical Year Book 1970); lime juice - 67,001 gallons exported in 1954 (Annual Report of External Trade of Ghana 1955 and 1956, Vol.II, Accra pub. by Government Statistician); Cocoa butter - 795 tons and cocoa paste - 3,653 tons exported in 1954, (Annual Report of External Trade of Ghana, 1955-56).

15. Why fish preparation for export was not made part of IDC's programme is difficult to understand. According to 1955-6 External Trade of Ghana, prepared fish was exported for the last time in 1954 and the quantity was 89 cwt.

For some inexplicable reason the canning operations of the Department remained outside the control of the IDC when the latter came into existence.

(iii) Ghana's physical and institutional impediments to desired industrialisation:

The decision by the Government in 1954 to charge the IDC, through which it had been channelling all funds for industrial development, with responsibility to engage directly in manufacturing activity by setting up its own production units was indeed an epoch making one. It signalled its acceptance to play the pioneering role in the industrial transformation of the country if the private sector was either too tardy or unwilling to engage in such an endeavour.

A programme for industrialisation, if it is to achieve any measure of success, has to be designed with due regard to the following considerations; a clear knowledge of the resources (both physical and human) of the country in question: a provision of the desired tempo and pattern of industrial development; the ability to make, at the appropriate times the institutional arrangements and policies needed for the attainment of the desired industrialisation objectives and the capacity to marshal efficiently for production the requisite co-operant factors. It was because the Ghana Government wanted to have a successful industrialisation programme and also because of its inexperience in such matters that it invited Prof. W.A. Lewis in 1952 to report upon industrialisation for the country. The deficiencies of the country outlined below are based partly on observations contained in the Lewis Report and partly on the remarks of other people concerning industrialisation objectives.

(a) Limited variety of available industrial raw materials: The following statement appears in the Lewis Report at the end of a list of industries which in the then prevailing conditions of Ghana were classified as "favourable" or "imarginal":

> "The list of favourable industries is very short, because [Ghana] does not have many industrial raw materials." 16

The shortness of the list was accounted for partly by the fact that the conclusions reached by Professor Lewis were based on the premise that production for the home market via import substitution was Ghana's best approach to industrialisation and partly by the fact that on the basis of the existing demand, only a few manufactured products had acquired domestic markets large enough to justify the starting of local production.[17]

(b) Inadequacy of accumulated domestic capital: Another factor which is required for industrialisation as indeed for any form of economic development, is capital. Concerning this, Ghana was also in dire need. In Nkrumah's words:

> "Investment capital is our greatest need. Our colonial status prevented us from accumulating as individuals the reserves of capital necessary to establish on a private basis those major enterprises which will lay the foundation of sound industrialised economy and expand and diversify our agriculture.
>
> Only the government in fact, has resources large enough to make a realistic approach to the problems of reconstruction and development". 18

(c) Lack of scientific and technological knowledge and managerial skill: In terms of the broader concept of capital Ghana was also deficient and this was recognised by Nkrumah:

> "A country's capital is of course, also to be found in its body of technical, scientific and managerial knowledge, as well as in its productive capacity. In those fields we have to acknowledge deficiencies which we know it will take time to wipe out."19.

16. Lewis Report, op.cit. para.89. See - footnote (1) Section 5 to Chapter 2 of this study where reference is made to the indication of the abortive (fante) Confederation to introduce new plants into the country for purposes of economic development.

17. Prof. Lewis stated in paragraph 89 that the list of favourable industries would grow as the standard of living of the people rose.

18. Kwame Nkrumah, Africa Must Unite, op.cit. p.101

19. Ibid, p.102

The Lewis Report was quite specific about this same issue or at least part of it:

> "African entrepreneurship is deficient in technical knowledge, in managerial capacity and in capital".20

Ways of acquiring managerial capabilities were suggested and the best of them is training on the job:

> "The foreigner's most useful craft in these days is not scientific information, but managerial experience. Science and Technology are taught in schools, and the local people can study them in their own or foreign universities. The craft of business management, however, can be learnt only in managing business." 21

In order that the Ghanaian could acquire managerial expertise Prof. Lewis suggested that local businessmen should enter into partnership with foreign concerns, who unfortunately, for reasons set out below did not then find local conditions attractive.

(d) Factors countervailing against the processing of tropical products in the producing countries: Up to the outbreak of the Second World War industrialists in the West who used unprocessed tropical products as inputs preferred to locate their enterprises in the consuming advanced countries rather than in the producing countries in the tropics. The reasons for this were many and varied, differing from product to product. The whole question was studied by Charlotte Leubuscher,[22] but for our purpose we shall be concerned with considerations relating to the two leading products of the country, namely, cocoa and timber.

With regard to cocoa the factors which influenced the location of the processing units were technical and economic. It was claimed, first, that the storage of raw cocoa had not been found practicable in any tropical country for any length of time; second, that the chocolate industry for technical reasons relating to production considered it necessary to avoid

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20. The Lewis Report, op.cit. paragraph 145

21. Ibid. paragraph 108

22. Charlotte Leubuscher: The Processing of Colonial Raw Materials, HMSO, London, 1951.

places with high external temperature and furthermore, that the output mix of the processing industry combined with consumers' demand required a market oriented location for the manufacturing units.[23]

In the case of timber which in the conversion process loses weight, economic consideration from this standpoint indicates the location of the processing plants (sawmills or peelers) in the producing countries, this is because an economy of between 50 and 60 per cent in the weight of the derived lumber can be obtained before it is shipped. Again, the freight charge for lumber is lower than the corresponding charge for logs. However, other considerations such as the demands of industrial users, the organisation of the timber trade in the advanced countries and technical factors appeared more important to decision makers and therefore influenced them to prefer locational positions in the advanced countries for the processing plants.

It was felt that the very selective, varied and peculiar demands of users of timber both industrialists and craftsmen, could best be satisfied if timber was imported into the consuming countries in the form of logs rather than in that of lumber. The organisational factor derives from the fact that some of the largest timber using manufactures had their own saw mills and with regard to imported logs a greater portion of it was converted in mills situated in the principal ports and owned by the importers. Until the fifties the trade in tropical timber was confined mainly to mahogany, especially in the case of Ghana and since in the forest the species is found in single stands with great distances in between, it meant that the supply of logs from a particular region was found insufficient to justify the setting up of a sawmill in that region. Again the demand requirements of the overseas markets were too restrictive and until those were widened to include the less popular timber both the high costs of extraction and heavy

23. Ibid. Chapter I.

overhead costs deterred the development of sawmilling in the producing tropical countries. Finally, tropical conditions were considered to give rise to high operating and maintenance costs and the success of investing in modern manufacturing generally in the tropics was considered in some quarters with doubt.[24]

(c) Alleged preferences of indigenous businessmen in the LDCs for traditional ventures: It is claimed by some observers that in the developing world preference is shown by businessmen for traditional activities because of cultural background. Whereas in the West craftsmen during the industrial revolution often emerged as industrialists, their counterparts in the LDCs of today, it is claimed, do not by their actions make history repeat itself, because they are traditional bound and are beyond the hope of occupational rehabilitation. It is further asserted that entrepreneurs in the developing world are more interested in commercial pursuits and in speculative dealings in real estates where the profit margins are relatively high than in manufacturing ventures. Whatever their objectives, they are simply not motivated by growth considerations.[25] The available evidence points to the fact that the development of modern manufacturing in the LDCs is usually the work of a foreigner.[26]

(iv) Expanding the modern manufacturing sector through the Industrial Development Corporation.

(a) Introduction: The physical, social and economic conditions of Ghana during the fifties reflected much of what has been recounted above. This was the situation the CPP Government, led by Dr. Kwame Nkrumah, had to contend with when it wanted to take concrete measures to have the country industrialised soon after it assumed office.

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24. Ibid. pp.144-45

25. H.G. Aubrey, "Industrial Investment Decisions A Comparative Analysis," Journal of Economic History, December 1955, pp.335-51

For an account of the fields and forms of African private enterprise, especially in Ghana and Nigeria see - T. Geiger & Winifred Armstrong's The Development of African Private Enterprise, pub. by National Planning Association, Washington, D.C. 1964 pp.24-25

26. See - for example, J.Rweyemamu Under-development and Industrialisation in Tanzania, OUP, Nairobi, 1973 pp.96-97

For expert advice the Government sought the views of Professor W.A. Lewis as mentioned already. In order to enable the Government to deal effectively with the physical and institutional problems confronting the country as far as industrialisation issues were concerned, Prof. Lewis recommended in his Report that an Industries Division in the Department of Commerce should be re-established and charged:

> "(a) to do or initiate research into the possibility of starting new industries;
>
> (b) to interest industrialists in these industries;
>
> (c) to advise industrialists who are starting new industries and help them to solve their problems;
>
> (d) to recommend to government what forms of assistance new industries should receive". 27

It can be deduced from the experience of newly industrialising countries elsewhere that the effective implementation of the recommendations would contribute towards the avoidance of stagnation in manufacturing during the early stages of industrialisation.[28]

(b) Subsidiary and associated companies: Following the publication of the Lewis Report in 1953 a special Industries Section was established in the Ministry of Commerce and Industry. Among the early responsibilities given to it were investigation into the availability sites for the construction of new industrial establishments; the study of the demands of businessmen for industrial sites as well as land for the housing of workmen. It was also to provide advice and assistance to investors as and when they were sought.[29]

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27. Lewis Report, para.241 and 256(1)

28. See - W. Paul Strassmann, "Causes of Technological Stagnation in Manufacturing during early Industrialisation," Oxford Economic Papers, Nov.1967 pp.345-58. The causes Strassmann deals with are of four broad categories about which information can be supplied to businessmen making enquiries about investment opportunities; they are (1) incompletness or unsuitability of the existing known techniques for the exploitation of a country's resources. (2) ignorance about techniques existing elsewhere but not used locally and here provision of information can result in technology transfers; (3) inadequacies in motivation and management and (4) inadequate economic structure, which is about markets and government policies.

29. C.B.S. Economic Survey, 1953, Accra 1954 para.108

Soon after a government policy orientation had obligated the Industrial Development Corporation to form either subsidiary or associate companies for the purpose of manufacturing, a number of enterprises were set up. By the end of 1955 the firms listed in Table 6.1 had either been formed by the IDC or entered into partnership with it.[30] It is interesting to note that the material used in their manufacturing activities by about a quarter of the firms was timber, one of the major raw materials of the country. This direction of industrial development was in conformity with the recommendations of the Lewis Report which considered the "wood products" industry as favourable.[31]

The production of matches was among the early ventures to be undertaken by the IDC. As a user of wood the industry was a great attraction, though it was not known whether a suitable local timber could be found to make the establishment of a local industry a possibility; the Lewis Report was therefore not specific as to its classification. For this reason one of the first tasks of the IDC match company was to initiate research and to set up a pilot plant for the production of safety matches with local timber.

The expansion of operations by the IDC made the acquisition of more development funds a necessity, so an amendment to the Industrial Development Ordinance was effected in April 1955 in order to raise the statutory limit to the amount that could be placed at the disposal of the Corporation from ₵2 million to ₵8.0 million.[32] This was further raised to ₵16.0 million in 1959.[33]

As stated in the 1957 Economic Survey, the IDC had five subsidiaries and three associated companies and that the Corporation was not yet in a position to show a profit over its operations as a whole.

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30. Before the orientation of its policies in 1954 the IDC had already undertaken the construction in 1952 of a brick and tile factory which would utilise local clay deposits. ₵4 million was also earmarked under the First Development Plan for the construction of a cement factory by the IDC. (See - Development Progress Report 1955" by the Govt.Printer, Accra, 1956 pp.14-15)

31. Refer to Chapter 5 for the list of industries which were considered in the Lewis Report as favourable for establishment.

32. C.B.S. Economic Survey 1955, Accra para.134

33. C.B.S. Economic Survey, 1959, Accra para.184

1.	Crystal oil mills (I.D.C.) Ltd	7th December, 1951	Production of edible oil and derivatives	120,000	60,066
2.	Gold Coast Brick & Tile (I.D.C.) Limited, Accra	23rd March, 1953	Production of roofing tiles, bricks and similar products from local clay deposits	500,000	481,584
3.	I.D.C. Furniture & Joinery Ltd.	5th June, 1953	Production of household and office furniture, undertakes joinery of all types	300,000	224,000
4.	Metal Industrial (I.D.C.)Ltd,Accra	22nd August,1953	Production of bright steel nails	60,000	73,664
5.	Nkawkaw sawmills (I.D.C.) Ltd Nkawkaw.	3rd February 1954	Production of sawn lumber logs, planned and sectional timber	300,000	160,000
6.	The Match Development Co. (I.D.C.) Limited	23rd July, 1954	Research, experiment and pilot production of safety matches	30,000	15,038
7.	Warababa Bakeries (I.D.C) Ltd. Accra	24th July,1954	Production of bread of all kinds; cakes, confetionery and buffet services	40,000	24,368
8.	Ashanti Timber Products, (IDC) Limited, Kumasi	19th August,1954	Produces household & office furniture joinery products sectional timber houses (pre-fabricated)	200,000	166,628
9.	Gold Coast Tyre Services Ltd, Accra.	10th Sept. 1954	Production of remoulded tyres & undertaking vulcanising sorciving, etc.	10,000	-
10.	Gold Coast Cigar Co.(I.D.C.) Ltd. Accra.	9th February 1955	Production of cigars, cheroats and cut pipe tobacco	30,000	11,000
*11.	H.E. Sackey & Co. Ltd. Kade	20th Feb. 1955	Production of sawn lumber, logs for export, planed boards and parquet flooring strips	500,000	243,874

Sources: State Enterprises Secretariat, Accra

* Associated companies

(c) Causes of the IDC's Industrial Problems - It is generally recognised that from the standpoint of social adjustment it is the early stages of industrialisation that are likely to prove the most difficult. In any case, successful industrial development involves profound changes in social organization and attitudes and the rate of its evolution and the overall social advantages that may accompany it in the short-run are in turn determined by the society's capacity to adjust its modes of life to changing environmental conditions.[34]

The problems which confronted the IDC manufacturing units in their early days in the fifties were those commonly experienced by pioneering ventures and in origin they were either internal or external to the firms. The internal ones were either technical, managerial or personnel in nature and the external one were essentially marketing.

1. Technical - Much time and considerable sums of money were spent in finding out local clays that were suitable for the making of tiles and bricks and indigenous timber that could be used for making matches. The difficulties encountered illustrated the fact that technologies which have proved successful in one place cannot necessarily be applied with success in another place with entirely different environmental conditions, if no modifications or adaptations are carried out.[35]

2. Management - Management problems reared their heads right from the start. Whereas top-level management was secured in many a case for the overall organisation of the ventures, difficulties were experienced in obtaining middle-level managerial personnel as well as people with specialist knowledge

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34. See - U.N. Processes and Problems of Industrialisation in Under-developed countries, New York, 1955, p.5. See also Margaret Mead(ed), Cultural Patterns and Technical Change, New American Library, 1959, Chapter 3 section on "Industrialisation."

35. See - J.Baranson, International Transfer of Automotive Technology to Developing countries, UNITAR Research Report No.8 New York, 1971, and "Economic and Social Considerations in adapting Technologies for Developing Countries", in Technology and Culture, Vol.4, 1963. Detriot/Michigan; M.P. Todaro, "Some Thoughts on the Transfer of Technology from Developed to Less Developed Nations" in Eastern African Economic Review, Vol.2 No.1 1970; UNCTAD, Transfer of Technology including Know-how and Patents - Study by the Secretariat of UNCTAD, Geneva, 1970.

and skills to render supporting services and these deficiences militated against the "X-efficiency" of most of the Corporation's early manufacturing ventures.[37] Management problems continued to bedevil the IDC (later stage) enterprises for many years because the Government itself was slow to appreciate the fact that management required special training and that it is something which cannot be successfully undertaken by any high grade civil servant.[38]

3. Labour: Many influential politicians used the IDC enterprises as means for securing employment for their relatives. For this reason the enterprises usually had in employment more workers than were needed for efficient operations. Because of the political patronage which many of the workers enjoyed, discipline in the factories was far from satisfactory and productivity was consequently low. In view of the labour and management problems which beset many of the state enterprises right from the beginning of their operations they could not produce and sell their goods at prices competitive with those of imported rival products and still make a profit.

4. Marketing: The existing domestic markets for the products which were manufactured by the early IDC enterprises were large enough for the various items, yet securing adequate sales in each case was a problem. Two factors were contributory to this, namely, difficulty in finding distribution outlets and consumers' loyalty to already established brands. Concerning almost all the well-known retailing shops in the country were either owned or controlled by the expatriate commercial firms who were either subsidiaries of or local distributors for overseas' manufacturers of rival products. Naturally, the firms did not welcome the appearance of the import substituting goods produced by the IDC and were not enthusiastic in promoting their sales.[39] Because[40]

37. See - H. Leibenstein, "Allocative Efficiency vs. X-efficiency," American Economy Review, Vol.56, 1966, pp.392-5

38. See - for example, Ghana's Seven Year Development Plan, Accra, 1964 p.301

39. Information gathered during field work by the author.

40. After becomeing a member of GATT in 1957 Ghana undertook a gradual process of dismantling its import licensing system. This removed whatever protection the IDC enterprises enjoyed. A tariff on tobacco was imposed in 1959, but that was for the benefit of a new expatriate firm to manufacture cigarettes, and after the liquidation of the IDC cigar manufacturing company.

the Government did not in the fifties give any protection to goods produced locally difficulties were encountered by the IDC enterprises in the marketing of their goods. Inability to capture a larger share of the existing sizeable markets led to operational difficulties and eventual liquidation.[41]

The other aspect of the marketing problem - that is the loyalty of buyers to familiar products - was something and about which the IDC enterprise made little or no attempt to combat.[42] Compounding the problem of brand loyalty is the well known preference of the Ghanaian buyer for foreign made goods, so when even the IDC enterprises found distributive channels for their products and offered them at prices which were competitive the quantities sold did not permit the enterprises to break-even.

In compliance with the directive received from the Government to engage directly in manufacturing ventures, the IDC had by the end of 1955 either established or become associated with the eleven enterprises listed in Table 6.1. On account of the problems encountered by them some had to to into liquidation in subsequent years. <u>The Economic Survey, 1957</u>, reported that the IDC had, apart from the brick and tiles factory and the Match Development Company, five subsidiaries and three associated companies in active production during the year. The two named companies had by then not gone into production and the Corporation itself had still not shown a profit over its operations as a whole, though by the end of that year it had made a direct investment of nearly ¢2.0 million in manufacturing ventures.[43]

41. See - Tony Killick, on IDC's marketing problems in W. Birmingham et al. op.cit. pp.289-90. In commenting upon the competition which was offered some of the local producers (e.g. soap makers) to the IDC, Killick overlooked the fact that such producers were mainly small scale household producers with comparatively small overhead costs. They were thus in a position to offer much lower prices. The bakery failed because of management and political interferences.

42. For the marketing techniques they could have adopted - see J.Bates and J.R.Parkinson, <u>Business Economics</u>, Basil Blackwell, 1968, pp.59-93

43. C.B.S. <u>Economic Survey, 1957</u>, Accra, 1958, para.103

(v) <u>The manufacturing sector after the commencement of the activities of IDC</u>

From the standpoint of profitability it might be concluded that the IDC was a failure, but there are some who would urge that its performance as hitherto recounted be evaluated in terms of criteria other than profitability.[44] Besides undertaking ventures which did not then appear attractive to private investors, the IDC provided financial assistance to small businessmen and also became a catalyst in Ghana's industrialisation drive.

As recommended in the Lewis Report the Corporation set up a Small Loans Section in 1954 on businesslike lines in order to give financial assistance and advice to small enterprises. The objective was to enable indigenous entrepreneurs operating on small scale to make as much contribution as possible to the country's industrialisation drive. Upon re-organisation 41 loans granted during the 1948-52 period were taken over and new ones given. Table 6.2 shows

Table 6.2 IDC LOANS TO SMALL BUSINESSES - JANUARY 1951 TO SEPTEMBER 1955

Small Businesses	Number	Amount	(₵)
Corn processing etc.	8	8,118	
Baking, bottling etc.	8	15,320	
Light Engineering	5	6,850	
Food transporting & Cold storage	8	25,410	55,689
Construction & timber contracting	3	3,826	
Brick making, pottery, etc	13	41,760	
Printing	2	4,132	
Wood-working	8	12,182	61,900
Sawmilling	2	6,100	
Tailoring, dressmaking, etc.	13	16,232	
Shoe making & Leather work	7	10,122	
Miscellaneous	13	19,634	52,088
Total	90		₵169,686

<u>Source:</u> State Enterprises Secretariat, Accra, 1965.

44. Consider, for example, the following excerpt from a statement by the Prime Minister, (Dr. Kwame Nkrumah) to the National Assembly on July 16, 1958, and quoted in the <u>Second Development Plan, 1959-64</u>, p.19 "The IDC has been instructed that its function is to pioneer by establishing new industries or new techniques; it is not to engage in types of business which already exist in Ghana, unless it is introducing quite new technology."

the number and variety of small scale business ventures that received financial assistance from the small loans section during the first few years of the implementation of the First Development Plan.

Despite the diffucuities encountered in the early part of its direct participation in manufacturing the IDC continued to establish new ventures with the result that by the end of 1959 it was operating 21 subsidiary companies and had entered into partnership with 10 others. Some of the companies were outside the manufacturing sector, but these were few.

The proliferation of the Corporation's enterprises demonstrated in concrete terms the Government's intention to have the country industrialised.. Together with the frequent official statements made to assure private investors, especially those from overseas, that investment in the country was not only welcome but safe, the IDC's pioneering endeavours began to drive home to investors the manufacturing potentials of Ghana. In 1959, as reported by the Economic Survey of that year, sixty-eight factories were registered and some of those already in existence undertook expansion programmes.[45]

Of great significance was investment from overseas; agreements were reached for several new foreign firms to undertake operations in Ghana; these included a motor vehicle assembly plant, a Canadian factory for the production of aluminium roofing sheets and utensils and a pharmaceutical plant by the Imperial Chemical Industry: One indication of the interest overseas' investors were then showing in Ghana was the increasing use of locally grown tobacco leaf in the manufacture of cigarettes and allied products by a foreign firm which had already established in the country.

The importance which the industrial sector was assuming towards the close of the decade in the economy of the country warranted a departure from the practice of assessing the relative significance of the different sectors of the economy in terms of employed workers. To acquire a clear picture of the nature of the country's industrial development the Central Bureau of Statistics compiled for 1958 and 1959 statistical information on

45. C.B.S. <u>Economic Survey, 1959</u>, Accra, 1960, para.179

industrial enterprises employing more than five persons; in this survey many aspects of manufacturing, besides employment, were included. From the statistics obtained has been compiled Table 5.3 which presents data on the gross output and value added at current, market prices of the major manufacturing industries for the years 1958 and 1959.[46] The grouping has been based on the international standard industrial classification as recommended by the United Nations.

As examination of the outputs of the various industrial groups shows that the wood and cork industry with a gross output of over ₵14.0 million in both years was responsible for over 39 per cent of the total manufacturing gross output in each year. This high contribution by this industry is not surprising as timber was one of Ghana's principal resources. The next highest output in both years was by the beverages and tobacco groups combined. In terms of value it was over ₵11.0 million in either year and in each case it was over 30.0 per cent of the total of manufacturing gross output in both years. The transport equipment (motor repairs etc) group and the food processing industry followed next, each with an average of about ₵3.0 million a year. As shares of total gross output they were about 8.0 per cent and 7.0 per cent respectively.

In regard to value added the ranking of the industrial groups from the standpoint of their respective contributions to the total of the sector was the same as for the gross output; the percentage contributions were roughly similar, the only outstanding difference being that related to the food manufacturing group where the value added percentage contributions to the total were just under half the value of those for the gross output.

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46. Value added is calculated for the purposes of the Industrial Statistics by deducting from the value of the gross output of an establishment the costs of materials used and of fuel and electricity consumed during the process of production.

Table 6.3 VALUE AND PERCENTAGE DISTRIBUTION OF MANUFACTURING BY MAJOR SUB-SECTORS AT CURRENT MARKET PRICES FOR 1958 & '59

ISIC	INDUSTRY	GROSS OUTPUT				VALUE ADDED			
		1958 ¢'m	Per cent	1959 ¢'m	Per cent	1958 ¢'m	Per cent	1959 ¢'m	Per cent
20	Food	2.88	7.80	3.26	7.48	0.87	4.28	0.84	3.56
21 22	Beverages Tobacco	11.54	31.25	13.20	30.29	7.33	36.07	9.18	36.75
23 24	Textiles Clothing & Footwear	0.28	0.76	0.41	0.94	0.08	0.39	0.12	0.48
25	Wood & Cork	14.61	39.56	15.85	36.37	7.96	39.17	9.53	38.15
26	Furniture & Fixtures	0.49	1.33	0.73	1.68	0.24	1.18	0.40	1.60
27	Paper & Paper products	-	-	-	-	-	-	-	-
28	Printing & allied industries	2.28	6.17	1.78	4.08	1.33	6.55	0.98	3.92
29 30	Leather & finished products Rubber products	0.37	1.00	0.54	1.24	0.17	0.84	0.22	0.88
31	Chemicals	0.76	2.06	2.01	4.61	0.49	2.41	0.89	3.56
32	Petroleum & coal products	-	-	-		-	-	-	
33	Non-metallic mineral products	0.40	1.08	0.62	1.42	0.27	1.33	0.36	1.44
34	Basic metal industries	-	-	-		-	-	-	
35	Metal products	0.35	0.95	0.76	1.74	0.12	0.59	0.24	0.96
36	Non-electrical machinery	-	-	-		-	-	-	
37	Electrical machinery	-	-	-		-	-	-	
38	Transport equipment	2.96	8.02	3.82	8.77	1.45	7.14	2.05	8.21
39	Miscellaneous industries	0.02	0.05	0.60	1.38	0.01	0.05	8.17	0.68
	Total	36.93	100.0	43.58	100.0	20.32	100.0	24.98	100.0

Source: C.B.S. Industrial Statistics, 1958 and 1959, Accra, 1962. p.15

The reason for this will be considered in connection with Table 6.5 below.

One or two significant developments are worth observing. These relate to the textiles and clothing group as well as to the beverages and the tobacco group. It is usual for many less developed countries in embarking upon industrialisation to begin with the development of a textile industry. As can be seen from Table 6.3 the textiles group was very little developed during the period 1958-59. It contributed less than one per cent to the total of both gross output and value added. On the other hand the beverages and tobacco group was relatively very well developed. In the latter case the rapid development arose out of the decisions of private foreign investors who happened at that time to opt for these ventures.[47]

In Table 6.4 the value of gross output and value added of manufacturing enterprises employing more than five persons during 1958 and 1959 are given at 1960 prices so as to bring out output changes in real terms. Indication of changes in real terms assumes away price changes which are appropriate when consideration is being given purely to monetary changes. The data in Table 6.4 which portrays changes in real magnitudes were obtained by applying suitable price indices to the current prices data presented in Table 6.3 to those in Table 6.4 are those used in the Walter's Report for the private consumption component in the computation of Ghana's expenditure on the gross domestic product for the period 1955-61 at 1960 prices.[48] The relevant index numbers used are 97 for 1958, 100 for 1959, and 100 for 1960, the base year.[49]

In real terms the overall percentage change of manufacturing gross output from 1958 to 1959 was 14.3 per cent.[50] This performance was indeed

47. The reason why the textile industry was not among the first to be developed was that the biggest trade intermediaries in the country - all foreigners - had overseas associates who were textile manufacturs. It was therefore not in their interest to establish factories for the production of textiles in Ghana.

48. See - R. Szereszowski, "The Performance of the Economy, 1955-62" pp. 49-54 in W. Birmingham et.al. op.cit.

49. Ibid. Table 2.8 on p.51. The process of deflation in this case meant ? unflating the 1958 prices.

50. The relative importance of the manufacturing sector in the national economy, as far as the employment sector was concerned was before the compilation of data for the Industrial Statistics 1958 & 1959 estimated only in terms of the recorded number of people employed. Thus estimated the manufacturing sector's share of total recorded employment was 6.0% in 1954; 6.6% in 1956, 6.9% in 1957 and 7.3% in 1958

Table 6.4 VALUE OF GROSS OUTPUT AND VALUE ADDED OF MANUFACTURING BY MAJOR SUB-SECTORS AT 1960 PRICES AND RESPECTIVE 1958/59 ABSOLUTE AND PERCENTAGE CHANGE

ISIC Code	INDUSTRY	GROSS OUTPUT 1958 ¢'m	GROSS OUTPUT 1959 ¢'m	GROSS OUTPUT Absolute ¢'m	GROSS OUTPUT 1958/59 Change %	VALUE ADDED 1958 ¢'m	VALUE ADDED 1959 ¢'m	VALUE ADDED Absolute ¢'m	VALUE ADDED 1958/59 Change %
20	Food	2.97	3.26	0.29	9.76	0.90	0.84	-0.06	-6.66
21 22	Beverages) Tobacco)	11.90	13.20	1.30	10.92	7.56	9.18	1.62	21.43
23 24	Textiles) Clothing & Footwear)	0.29	0.41	0.12	41.38	0.08	0.12	0.04	50.00
25	Wood & Cork	15.10	15.85	0.75	4.97	8.20	9.53	1.33	16.22
26	Furniture & fixtures	0.51	0.73	0.22	41.14	0.25	0.40	0.15	60.00
27	Paper & paper products	-	-	-	-	-	-	-	-
28	Printing & allied industries	2.35	1.78	-0.57	34.26	1.37	0.98	-0.39	-28.46
29 30	Leather finishedproducts) Rubber products)	0.38	0.54	0.16	42.11	0.18	0.22	0.04	22.22
31	Chemicals	0.78	2.01	1.23	157.69	0.51	0.89	0.38	74.51
32	Petroleum & coal products	-	-	-	-	-	-	-	-
33	Non-metallic mineral products	0.41	0.62	0.21	51.22	0.28	0.36	0.08	28.57
34	Basic metal industries	-	-	-	-	-	-	-	-
35	Metal products	0.36	0.76	0.40	11.11	0.12	0.24	0.12	100.00
36	Non-Electrical machinery	-	-	-	-	-	-	-	-
37	Electrical machinery	-	-	-	-	-	-	-	-
38	Transport equipment	3.05	3.82	0.77	25.25	1.49	2.05	0.56	37.58
39	Miscellaneous	0.02	0.60	0.58	900.00	0.01	0.17	0.16	1600.00
	Total/overall change	38.12	43.58	5.46	14.32	20.95	24.98	4.03	19.24

Source: Derived from Table 6.3

quite impressive, though it has to be noted that the sector was then starting from a very small base. The percentage change in the value added total was 19.24 and when compared with the percentage change in the total for the gross output it discloses the fact that the value added in gross output had increased over that of the previous year. This is an indication that greater contribution to gross output was being made by inputs of domestic origin. Some industries exhibited for gross output higher rates of change than the overall performance of the manufacturing sector. They included such industries as chemicals (157.7 per cent), metal products (111.1 per cent), non-metallic mineral products (51.2 per cent), transport equipment (25.3 per cent), etc. As can be seen from Table 6.3 all these industries, with the exception of the transport equipment and chemical groups, were those that contributed less than 2.0 per cent each to the total gross output of the manufacturing sector. Their high percentage figures arose from the peculiarities of representing in percentages small absolute changes in fractions that have very low values for their denominator. The percentage change of the leading industrial group, the wood and cork industry (5.0 per cent) was the smallest of all, though in absolute terms its increase was much greater than those exhibited by the industries with very high percentage increases.

One aspect of the early stages of industrialisation in Ghana which merits attention is value added as a percentage of gross output. The direction in the change of the percentage indicates whether the contribution being made to gross output by the locally derived inputs in the process of industrialisation is increasing or decreasing. The value added portion of the gross output of each of the major manufacturing groups in 1959 is shown in Table 6.5; the beverages and tobacco group had the highest percentage with 69.5 and was closely followed by the wood and cork group 60.1; the transport equipment group, the printing group and the non-metallic minerals group had each between 50 and 60 per cent; the food manufacturing group with 25.8 per cent had the smallest. When the manufacturing sector is taken as a whole the value added

Table 6.5 MANUFACTURING SUB-SECTORS' VALUE ADDED AS PERCENTAGE OF GROSS OUTPUT AND AS PERCENTAGE SHARES IN TOTAL MANUFACTURING VALUE ADDED IN 1959

ISIC Code	INDUSTRY	Gross Output ₵'m	Value Added ₵'m	Value added as % of Gross Output	Sub-Sectors' % shares in Total value added of Sector
20	Food	3.26	0.84	25.8	3.36
21 22	Beverage) Tobacco)	13.20	9.18	69.5	36.75
23 24	Textiles) Clothing & footwear)	0.41	0.12	29.3	0.48
25	Wood & Cork	15.85	9.53	60.1	38.15
26	Furniture & Fixtures	0.73	0.40	54.8	1.60
27	Paper & Paper products	-	-	-	-
28	Printing & allied industry	1.78	0.98	54.8	3.92
29 30	Leather & finished products) Rubber products)	0.54	0.22	40.7	0.88
31	Chemicals	2.01	0.89	44.3	3.56
32	Petroleum & Coas products	-	-	-	-
33	Non-metallic mineral products	0.62	0.36	58.1	1.44
34	Basic metal industries	-	-	-	-
35	Metal products	0.76	0.24	31.6	0.96
36	Non-Electrical machinery	-	-	-	-
37	Electrical machinery	-	-	-	-
38	Transport equipment	3.82	2.05	53.7	8.21
39	Miscellaneous industries	0.60	0.17	28.3	0.68
	Total	43.58	24.98	57.3	100.00

Note: Because of rounding the details of the last column do not add up exactly to 100

Source: Derived from Table 6.4

for the year was 57.3 per cent gross output which was quite a significantly high figure.[51] If the 1959 figures are taken as representing the state of affairs during the latter half of the fifties when the development of the manufacturing sector in the country was gathering momentum, we can then say that the initial manufacturing enterprises of the country were mostly based on activities in which the value added component was quite high. In the late fifties manufacture of tobacco products, for example, depended to a considerable extent on locally produced tobacco grown under the supervision and advice of the main tobacco manufacturing firm; wood too, was obtained locally and sawmilling and logging activities were usually combined by the operating firms. These two industrial groups made use of inputs a high proportion of which was agro-based and produced locally. Because these two groups made at that time the highest contributions to the value of gross output their great dependence on locally derived inputs was a point of great significance. The value added component was high in the manufacture of non-metallic mineral products, in printing and in the manufacture and repair of transport equipment because of the adoption of labour intensive methods of production in all of them. The smallness of the value added portion of the gross output of the food manufacturing group was due to two main factors; first, in the case of products that were processed for export, their treatment was confined only to the very initial stages of preparation (e.g. their containerisation for shipment); and second, with respect to the manufacture of food products (bread, cakes, etc) for the local market the materials used were in most cases imported and in the latter stages of manufacture. Local manufacturing therefore added only a little

51. Note should be taken of the fact that the 'value added' as calculated by the Ghana Central Bureau of Statistics was synonymous with net output" of the firms, i.e. revenue minus bought-in raw materials, services and components.

to the total value of gross output.

(vi) Summary: The Industrial Development Corporation was reorganised in the mid-fifties so that is could participate directly in manufacturing activities instead of acting merely as a loans giving agency for the benefit of indigenous entrepreneurs. It undertook many manufacturing projects in order first, to demonstrate that the operation of manufacturing entreprises in Ghana was commercially possible and, second, to exploit the commercial uses of the resources with which the country was very endowed (e.g. timber and clay).

In the operation of its first enterprises the Corporation encountered some difficulties and could therefore not show any profit for some years however, through their-existence the enterprises served as a catalyst by attracting private investors to set up a variety of manufacturing units in the country. Both in terms of employment and of output the rate of industrial expansion exhibited signs of rapid increase towards the end of the decade. As accelerated industrialisation programme was incorporated in the Consolidation Development Plan and the high rate of capital formation which accompanied it required a great deal of capital goods almost all of which had to be imported from abroad. The procurement of the requisite capital goods occured at a time when the prices of the country's principal export products began to fall on the world markets. A combination of a rising cost of import bills and declining earning of foreign exchange resulted in a drain on the country's foreign exchange reserves.[52]

The programme of establishing and expanding a modern manufacturing sector seemed to be proceeding satisfactorily when foreign reserves position which began in the late fifties was a development which if

52. The sharply rising share of machinery in an increasing import bill during the early stages of industrialisation is shown in Table 5.9

unarrested, might jeopardise the increasing pace of industrialisation once the country finds itself in a position of not having enough foreign earnings to cover for short term changes in its balance of payments.

CHAPTER 7

THE EMERGENCE OF EXTERNAL IMBALANCE IN THE COURSE ECONOMIC DEVELOPMENT: THEORITICAL EXPLORATION AND GHANAIAN EXPERIENCE

A. THEORETICAL UNDERPINNINGS

(i) Introduction - The experience of many less developed countries undertaking programmes of accelerated economic development has shown that such programmes more often than not encounter difficulties arising from inadequacy of resources. Less developed countries are obliged to obtain most of the resources required for economic development from the advanced countries and this is particularly so when the development programme assumes the form of industrialisation. When an increase in the absorption of resources for development is one for which resources can be secured internally, then no matter how serious the consequences might be the issue can fully or partially be solved by means of prudent budgeting. The development programme will then not become sequentered. When, however, the increase in the demand for development resources spills over into the external sector and causes an augmentation in the demand for inflow of capital goods which is not matched by an equivalent increase in the outflow of exports an export-import bottle-neck is created. If this balance of trade deficit cannot be made good by an inflow of funds on current capital ? account, then it has to be covered by an outflow of foreign exchange reserves (or gold). Unless the situation is redressed in time the external imbalance might become chronic and this would result in the depletion or near depletion of the country's gold and foreign exchange reserves.

The seriousness of an external imbalance to a country depends in a large measure on the extent to which it depends on foreign sources of supplies of goods and services for the implementation of its development programmes, this dependence being the greater the more the structural transformation aimed at happens to be fundamental. When less developed countries undertake programmes of economic development they cannot in general avoid foreign trade, even if they so desired it because of their inability to produce at home the requisite capital equipment and intermediate goods as well as complementary technical and managerial skills. For these reasons unless foreign financial assistance was obtained when a foreign imbalance proves to be persistent, development programmes might grind to a halt.

Apart from the shortages of resources which are usually caused by the implementation of accelerated development programmes, similar shortages of resources, especially regarding those produced in the industrialised countries, might occur when there happens to be a dimination in a country's earnings of foreign exchange as a result of a fall in the world markets of the prices of its export products. With the level of its imports for development purposes remaining unchanged, such a country will not secure adequate international earnings to enable it to finance all its requirements, if target development levels were to be attained, unless financial accommodation was obtained from abroad to cover the difference.

Since foreign trade is indispensable for most less developed countries embarking on development programmes - because some of the resources required for development must of necessity be obtained from abroad - the external sector has to be brought into any calculus of resources required for the development of a less developed country. The provision and absorption of the requisite resources can be categorised into four broad groups and their adequacy or deficiency evaluation: savings, investment, exports and imports.

(ii) <u>The relevant models</u>: The relationship of the four components mentioned above will next be dealt with in symbols, but starting from the standpoint of the entire economy. Conventionally the aggregate of an economy are variously expressed as follows: gross domestic product or output (O); national income (Y); and total expenditure (E). Gross domestic product is made up as follows:

$$O = C + I + X - M \qquad (1)$$

where consumption (C) is here taken to comprise both public and private consumption and to relate to both domestically produced as well as imported goods; similarly, investment (I) includes both public and private investment and involves the use of both home-produced and imported resources[1]; (X) stands for the value of total exports and (M), the value of total imports. Total domestic demand or expenditure for both consumption and investment goods - which is total domestic absorption (E)[2] - is expressed as :-

$$E = C + 1 \qquad (2)$$

Since total absorption can be met from domestic output that is not exported in addition to what can be imported, then

$$E = O - X + M \qquad (3)$$

from equations (2) and (3) we derive

$$E = C + I = O - (X - M),$$

which is equavalent to

$$O - E = (X - M) = B \qquad (4)$$

where (B) stands for balance of trade. Equation (4) shows it quite clearly that where total domestic expenditure or absorption

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1. Looked at in this way government expenditure (G) does not appear in the domestic product indentity as a separate component.

2. For an account of the "absorption approach" to balance of payments analysis, see Sidney S. Alexander" The Effects of a Devaluation on the Trade Balance" <u>International Monetary Fund Staff papers, Vol.2</u> No.2, April 1952, pp. 263-278

happens to be greater than total domestic output the result will be a balance of trade deficit.

The analysis can be widened to include the invisible items in the current balance, in which case, we have

$$Y = O \pm R \qquad (5)$$

where (Y) as previously explained is national income and ($\pm$ R) stands for net payments either obtained from or made abroad. These payments are in respect of personal remittances, interest, dividends, service charges, etc. and (+ R) represents net receipts and (− R) net outgoings.

The experience of many less developed countries is that their transactions with regard to "invisible" items usually end in a deficit. When the effect of total domestic expenditure or "total absorption" on the external transactions of the country is calculated to be inclusive of all the items in the balance of payments on current account, then the following equation holds :-

$$Y - E = (X - M) \pm R \qquad (6)$$

Where the net payment for invisible items is negative (− R) then, all things being equal, the external deficit will be greater in equation (6) than it is in equation (4); but where the net payment is positive, i.e., (+ R), there may be an overall surplus in equation (6) than it is in equation (4). In the case of the less developed countries that usually incur deficits in their invisible items transactions, the imbalance in current account following from their internal imbalance will be greater than their balance of trade deficit. In this situation the current account deficit can be cleared either with an accommodating credit from abroad or with payment out of foreign exchange reserves.

The amount of resources required by a country in its process of development over a given time span is dependent on the rate of growth stipulated for the development process and the overall capital output ratio that is considered appropriate for the economy. A proportion of the needed resources, as has already been intimated, must of necessity be obtained from abroad; but the magnitude of the requirements of imported resources is in the main determined by the extent of the radical changes in the economy being sought. This might be evidenced in the case of a less developed agricultural country by attempts to create sizeable manufacturing sector, where previously none existed, through an accelerated economic development programme. The situation might become exacerbated if it is compounded with the pressure of population increase.

The equation for national resources requirements can be put in the dynamic form a' la Harrod and Domar, with consumption netted out, but with the foreign balance included. The equation thus becomes;

$$GC = s - b \quad [3] \qquad (7)$$

where (G) is the rate of growth and is defined as $\frac{\Delta Y}{Y}$

and (C) is the capital-output ration (i.e. a made investment and its incremental output) and is defined as $\frac{I}{\Delta Y}$[4]; (s) stands for the amount of saving given the level of income ($= \frac{S}{Y}$) and (b) indicates the balance of trade expressed as a fraction of income.[5]

3. R.F. Harrod, Towards a Dynamic Economics, MacMillan & Co. Ltd London, 1952; p.105. I obtained this idea of linking the Harrod-Domar model to the "total absorption approach from G.M. Meier, International Trade and Development", Harper & Row, N.Y. 1963, pp.67-69

4. R. F. Harrod, op. cit. p.80, footnote.

5. Ibid. p.105

Equation (7) can thus be interproted as follows:

$$\frac{\Delta Y}{Y} \cdot \frac{I}{\Delta Y} = \frac{S}{Y} - \frac{(X - M)}{Y} \text{ or } I + X = S + M \qquad (8)$$

It is evident from equation (8) that for development purposes national income (product) is in equilibrium when internal investment plus exports is equal to internal savings plus imports; but it does not in any way indicate that imports and exports are in equilibrium at the same time (i.e. $X - M = B$). The relationship is illustrated in Fig. 1 which embodies the following assumptions:

(a) X_0 X is the function of exports. It is of a given fixed quantity and is exogenously determined by foreign demand, which is here taken to be unchanged (= OX); in reality the value of exports cannot be more than the value of the national output.

(b) OM is the import function, where $\frac{\Delta M}{\Delta Y} = \frac{M}{Y}$ at all levels of income. (Y) M is realised rather than required imports (with consumption good assumed away).

(c) O(S+M) represents the function of saved resources plus imports; here marginal propensity to save is taken to be the same at all income levels, and so $\frac{\Delta S}{\Delta Y} = \frac{S}{Y}$

(d) X_0 (I+X) is the function of the sum total of exports plus investment, with the value of investment dependent on a fixed marginal propensity to invest and the level of income. The investment function can assume a linear shape if, with a fixed capital-output ratio as stated in equation (7) the target growth rate (G) is in terms of simple, rather than compound calculation. The investment (I) component in IXX stands for "desired" investment and its augmentation is thus at the maximum rate.[6]

6. The investment is the desired investment and should be written I; exports can be interpreted as the minimum desired (X) but greater values can be realised. In Fig. 1 the savings function is dependent on the nation income (S/Y) and the same applied to imports.

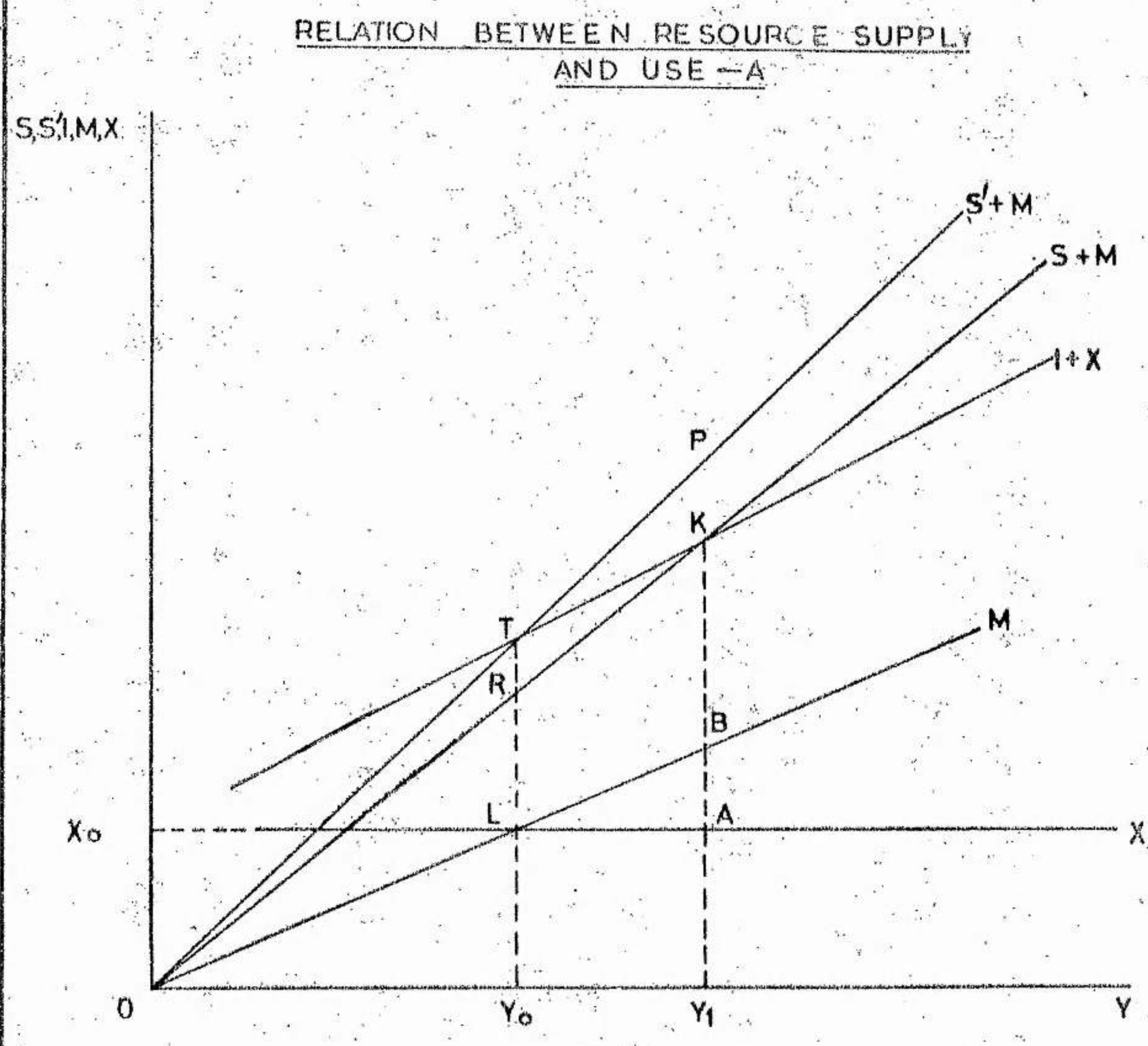

FIG.1

NOTE : It is assumed for the sake of simplicity that the volume of exports established for traditional markets abroad is fixed.

When national income is OY_0 imports and exports are in equilibrium (i.e. both are equal to Y_0L), but that economy is not in equilibrium, because I + X (= Y_0T) is then greater than S + M (= Y_0R). In other words, the desired absorption of resources in terms of investment plus exports is greater than the acquired or available resources made up of savings plus imports. When the level of national income is at OY_1 the equality, between S + M and I + M is attained (i.e. the two sets of aggregates become equal to (Y_1 K); but at this income level the value of imports is greater than that of exports by AB. When the national income level is at OY_0, for example, the aggregate of the desired amount of investment plus the value of exports aimed at in view of foreign demand conditions is greater than the available savings plus imports that are desired. In other words there is a deficiency in the supply of resources against required demand.

When the national income level is at OY_1 as shown in fig.1 S + M has become equal to 1 + X, but imports are then greater than exports. The relationship between the two aggregates, (I + X) and (S + M) and also between imports (M) and exports (E) at income levels, below OY_1 requires some elaboration.

At OY_0 level of income exports and imports are in equilibrium, but desired + + X is greater than S + M. From the standpoint of the overall development programme the situation is illustrative of what has been called a "savings-investment gap" and the term applies to the situation existing up to OY_1 level of income. Below OY_0 exports exceed imports but above it the position is reversed, and imports exceed exports. Between OY_0 and OY_1 the overall "saving-investment gap" situation has an element of an "export-import" gap, but the situation is essentially one of savings constraint. Above OY_1 the aggregate S + M is greater than I + X but imports are greater than exports. This illustrates a situation where resources that have been saved by a developing country cannot be exported to earn foreign currency to cover the trade imbalance. The situation is an example of a pure trade constraint (or an "export-import gap).

The illustration in Fig.1 depicts what has been popularised as the "two gap" model, but the assumptions on which it was based vary in some essential respects from those on which the "two gap" analysis is carried out.[7] Especially with regard to the assumptions of the " two gap" analysis of Chenery and Strout[8] and those of the Harrod model as expressed in equations (7) and (8) - on which Fig.1 is based with modification - the following observations can be made. In the first place the growth rate of GNP is exogeneously postulated in both. Secondly, a linear capital output function is assumedin both in order to relate required investment to target output. Thirdly, required investment in the two models is derived in a similar manner by multiplying the postulated growth rate by the capital output ratio.

Against these similarities, however, exist the following differences. Whereas in the Chenery-Strout analysis (taken as representative of the "two gap" model) the growth rate of saving is made to assume the form of a marginal propensity, in the Harrodian model it is in the form of an average rate and linear. Again, we have a marginal propensity to save in Chenery and Strout, whereas in the other the saving rate is expressed as a proportion of income ($\frac{S}{Y}$).[9]

7. See H.B. Chenery and M. Bruno, "Development Alternatives in the Open Economy: The case of Isreal" Economic Journal, 1962 pp.79-103 H.B. Chenery and A.M. Strout, "Foreign Assistance and Economic Development," American Economic Review, 1966 pp.679-733; J.C.H. Fei and G. Ranis, "Foreign Assistance and Economic Development: Comment American Economic Review, 1968, pp.897-912; J.H. Bruton, "The Two Gap Approach to Aid and Development Comment" American Economic Review, 1969, pp.439-446.

8. H.B. Chenery & A.M. Strout, op. cit.

9. In "Dynamic Economics" Harrod does not consider saving to be a constant fraction of income as the rate of growth (G) changes by a certain percentage. See Harrod, op. cit. pp. 72-79.

Furthermore in the Chenery-Strout analysis the growth of imports is in the form of marginal proponsity, whilst the growth rate of exports is postulated as a given percentage throughout the period; but in the other the growth rates of both exports and imports are linear functions. (In Fig.1 the exports function is linear but of more growth rate).[10] Another difference is that whereas in the "two gap" model the compontents of income are analysed with reference to the time horizon, in the illustrated model they are considered in relation to the different levels of national income; the difference is nonetheless super-ficial as it is easy in the former case to convert a time span into income levels provided an amount is posted for the beginning of the period and the growth rate per unit of time is also given.

In spite of these differences Fig.1 depicts the essential characteristics of the "two gap" model with respect to resources availability and absorption in terms of saving (S), investment (I) imports (M) and exports (X). As indicated by the model at the lower levels or during the early stages of growth developing economies generally pass through two different phases which are also shown to follow a definite sequential order.[11] The first phase is characterised by a deficiency of resource supply from both domestic and foreign sources as compared to required resource absorption for investment and exports; that is, $(S + M) \leqslant (I + X)$. This is usually reflected in the external sector by a deficiency in the required amount of imports for development purposes. This phase is usually christened by its chief characteristic, the "savings gap".

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10. ibid. Lecture 4. Harrod makes the rate of growth of exports a component of the total growth rate and is regarded as changeable; but proponsity to import, when referred to, is considered to be constant.

11. Chenery and Strout, op.cit. In this article the authors present 3 district consecutives stages of growth, viz. a skill constraint phase, a saving constraint phase and a trade constraint phase. The skill constraint phase is an innovation as compared with earlier presentations of the "two-gap" model.

The other phase, which usually subsequently encountered, is one in which supply of resources for development is at least adequate for absorptive requirements, (i.e. $S + M \geqslant I + X$), but because some of the saved resources cannot be sold abroad for the foreign exchange needed to pay for all the required capital goods to be imported from abroad. This phase is characterised by a pure foreign exchange constraint and is sometimes referred to by its distinctive feature, the "export-import gap".

In Fig.1 the illustration again incorporates the assumption that the amount of the goods to be exported is related to the traditional performance of the country. This may be so for short-run analysis; but for long-run considerations and in view of the activities of the general Agreement on Tariffs and Trade it would be realistic to regard the amount of exports to change over time (or with the level of income). The amount of goods exported is partly based on foreign demand and partly on the sales promotion conducted by the exporting country. It would be more realistic to consider exports to rise over time or with the increase in the national income; for development requirements, the limit to its magnitude will depend on needed imports for investment purposes. In Fig.2 exports are made to increase in amount with higher levels of income. On the assumption that this increase in exports will cause an equivalent increase in imports, the $I + X$ and the $S + M$ lines will shift anti-clockwise to new positions to reflect increase in value, but this does not affect the relative positions on the horizontal axis of the savings limited phase and the trade limited phase.

RELATION BETWEEN RESOURCE SUPPLY AND USE – B

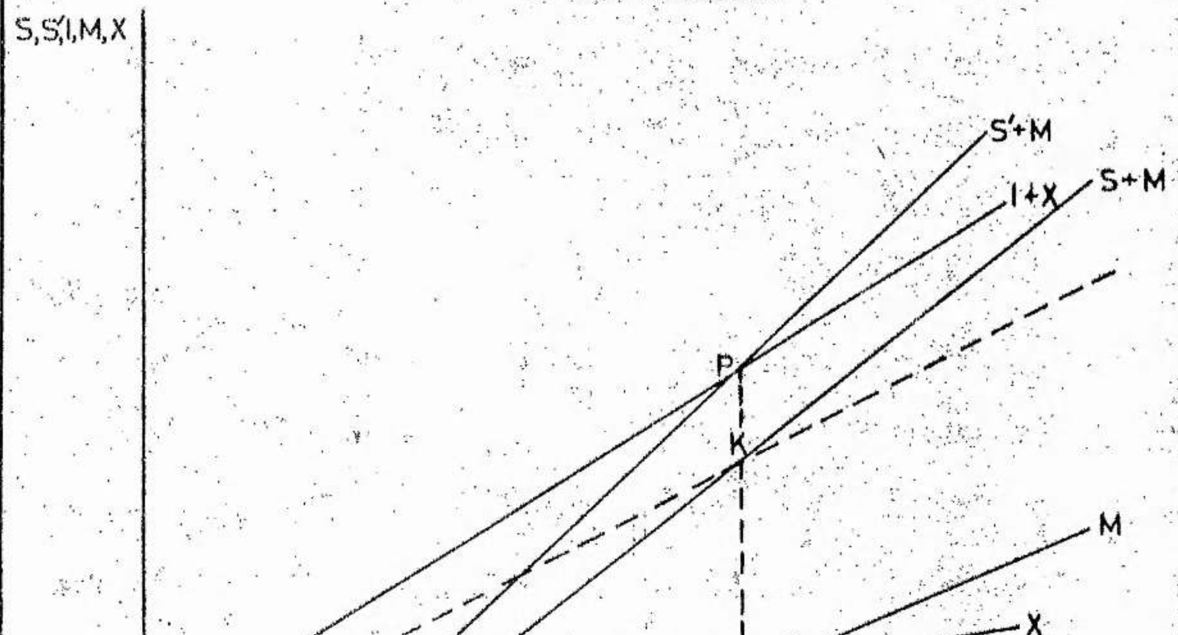

FIG. 2

NOTE : (i) The volume of exports is held here to be variable in response to both internal and external conditions.

(ii) The dashed line shows the position of the I+X line (as in Fig. 1) when the volume of exports is constant.

(iii) The "Two-gap" model: a special case of the emergence of the external imbalance

Though the "two gap" model provides much insight into the development of the external imbalance, its conclusions are very limited, because the assumptions on which it is based are too restricted. For this reason it does not encompass other variants of imbalance development which are not covered by the "two gap" model. As presented the model assumes a given growth rate for the GNP and postulates, at least in some versions, predetermined maxim for savings and exports; the latter in the short-run.[12] These assumptions are basic to the model and together with the other assumptions they yield the emergence of the savings constraint phase and the trade or foreign exchange constraint phase in the given consecutive order. But experience has shown that the emergence of the external imbalance, especially with regard to the less developed countries, assumes forms which are more varied than the conclusions of the "two gap" model.

One of the chief characteristics of the external trade of developing countries is instability with respect to prices, output and thus proceeds. Because most of such countries depend very much on foreign trade, growth rates in national incomes cannot be predetermined with any degree of accuracy, even over short periods, where fluctuations in prices or output or both are frequent and marked. In such circumstances <u>the modus operandi</u> of the "two gap" model with the fixed sequences of the two different phases is not the norm. The development of the

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12. See for example, the reply by Chenery and Stout to the comments made by Fei and Ranis on the former's article, American Economic Review, 1968, p.912 ff.

imbalance in the external sector need not always start with the savings-limited phase, nor should that phase be regarded as non-recurring once it has passed. Reversal to it from the trade-limited phase is a possibility. Furthermore, the phase need not necessarily be occassioned by the promotion of increased capital formation. As Kindleberger puts it:-

> "Internal investment can lead a development program without foreign loans and despite the need for foreign capital goods, if it is kept within the limits of total resources, but timing may produce a transitional balance-of-payments deficit to be covered by borrowing".[13]

In the foregoing, indications have been given of the ways in which constraints to the acquisition of development resources from abroad can develop and that those ways are more varied than what the "two gap" model presents. From this we, therefore, form the view that the "two gap" model is but a special case of the emergence of the external imbalance, in the development of which, especially in the case of developing countries, instability considerations both regarding supply and demand are paramount.

(iv) Possible solutions to the external imbalance: The avoidance of the emergence of the external imbalance or a determination to find a solution to it once it has occured has been the concern of many developing countries which have undertaken programmes of planned development. One suggested line of action is the use of resources for the expansion of the export sector or the import-substitution through a policy of depreciation or deflation.[14] However, the extent to which exports can be expanded by either depreciation or deflation depends of course on the prevailing nature of demand for the commodities being dealt with in the world markets that are being supplied by the countries concerned. Problems relating to

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13. C.P. Kindleberger, Economic Development, MacGraw-Hill Book, Cop. New York, 1965, p.324.

14. Ibid. p.324 provides an instance.

market shares and the influence individual exporting countries can wield in the commodity markets in which they operate have been discussed in Chapter 3, but a few more observations can help to elucidate the point.

Even where a country's market share is such that it can exercise considerable influence on the fixing of prices, the pursuit of devaluation as a policy will be determental rather than helpful to it when the price elasticity of demand for the merchandise exports is less than unity.[15] In such circumstances, too, any attempt to earn more in foreing exchange through the increase in the quantum of one particular export product will rather yield the opposite result. A further point of interest is that when the prices of commodities are fixed in the world markets, devaluation by a particular country has no effect on increasing the quantum of its exports of the commodities, because the devaluation exercise does not in any way cheapen the commodities to foreign buyers; rather the exporting country's proceeds for the commodities in its own currency increases. This however, has no import reducing advantage as the increased export receipts can be used to pay for any increases in the prices of imports that may result from the devaluation exercise.

The pursuit of a deflationary policy to correct an external imbalance may help where the exchange sector of an economy is well developed, but where the subsistence sector happens to predominate the application of monetary or fiscal policies with the object of achieving lower prices for export oriented products - where the prices are determined domestically for foreign buyers - may have limited results, as the effect of the policies being pursued will not be widespread.

15. This point is well brought out by H.J. Bruton, op. cit.

Whilst an increase in the production of an export staple crop may have a dampening effect on its price in the world market, if the producing country happens to be one of the principal suppliers, the production of new crops in great demand for export will certainly help to increase export earnings without causing a depression in their prices.

The development of new agricultural products for export has to be accompanied by measures to promote the sale of the new crops abroad and it would be most desirable if undue geographical concentration of markets was avoided.

External imbalance problem can be considerably reduced, if on the promotion of import-substitution industrialisation as much as possible of domestic raw materials would be judiciously utilised; in so doing care should be taken that no raw materials are produced at home which can be obtained far more cheaply from abroad on exchange basis.

Very often accelerated economic development in less developed countries involves industrialisation and since this form of rapid development is the major cause of the development of the external deficit, it is indeed not rational to suggest it as a possible way of solving the imbalance. It appears that the industrialisation of a non-industrialised country, if it is to avoid undue costs, should be a gradual process. As it is put by the United Nations:

> "Industrialisation involves structural changes in the economy, and in many instances, if undue social costs are to be avoided, the pace at which such changes can be brought about is governed by considerations, such as the rate of growth of population and of agricultural production, which are not usually susceptible to sudden or rapid short-term change." 16

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16. United Nations: "Processes and Problems of Industrialization in under-developed countries" New York, 1955, p.5

(v) The effects of adverse terms of trade on the external balance

The "export-import" gap which indicates the earning of inadequate foreign exchange needed by some developing countries because of their inability to export all their savings of domestic products meant for the world markets can be experienced in another way, not through failure to export but rather exporting at depressed prices. Through the activities of the General Agreement on Tariffs and Trade and on account of a number of commodity agreements the problem of unsold stocks of goods intended for export are not widespread. A more serious problem emanates from the secular trends in the terms of trade.[17a] Because of the prolonged incidence of adverse terms of trade a country with an increasing quantum of exports may find itself earning less and less foreign exchange. It is this experience that has partly contributed to the emergence of the external disequilibrium of many countries.

(vi) Two gap theory and provision of aid

The two gap theory was formulated for the purpose of providing principles or guidance for the giving of international aid to countries in need of assistance in the course of their economic development. The effect which aid can have on the savings, imports, exports and the rate of growth of recipient countries has been empirically studied by some economists.[17b] There are

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17a See - T. Morgan, Trends in terms of trade and their repercussions on primary producers in Roy Harrod and D. Hague(ed)s. International Trade Theory in a Developing World, Macmillan, London, 1963, pp.52-95, Gerald Meier, op cit. chapter on "Terms of Trade", p.55-63; Gottfried Haberler, Terms of Trade and Economic Development in Howard Ellis & H.C. Wallis (ed); Economic Development for Latin America, pp.275-297. Despite the controversy surrounding the acceptability of the movement of the terms of trade against all LDCS, it frequently moves against individual countries.

17b See - T.E. Weisskopf, "The Impact of Foreign Capital Inflows on Domestic Savings," Journal of International Economics, 1972, E. Stewart, E. Esbag, K. Kennedy and A. Thirlwall in "Foreign Capital, Domestic Savings and Economic Development - Three Comments and a Reply, "Bulletin of the Oxford University Institute of Economics and Statistics. Vol.33, 1971, and G. Papanek "Aid, Private Foreign Investment, Savings and Growth in LDCs" Journal of Political Economy, 1973 however those who think that aid givers are very often influenced not by altruistic motives but by profit considerations.[17c]

The work-a-day in which the international flow of capital is made up of private capital, and funds provided by governments and international institutions is considered in Partners in Development and recommendations on how to make aid more effective are made. Of great importance is the fact that the recommendations in Partners in Development are directed not only at recipient countries but also at donors.[17d]

B. THE EMERGENCE OF GHANA'S EXTERNAL IMBALANCE AFTER 1957

(i) Introduction - The role of the external sector in the economic development of Ghana was stressed in Chapter 1 when an account was given of the evolution of the structure of the country's economy as it was at 1951. In Chapter 3 a consideration was given to the composition of the export trade, the trade characteristics of the principal export items and the extent to which the country could exert influence in the world markets by virtue of its percentage share of the total world supply of each of the staples of international trade. Chapter 4 dealt with the institutional structures of the external sector and the degree of control that has been exercised by the expatriate trading agencies.

An impression of the growth and overall performance of the country's external sector for the 50-year period preceeding 1951 is shown in Table 1.2 in the form of data on the annual values of imports and exports of some selected years. Import values embody cost, insurance and freight and export values are in f.o.b. Because data on the country's national accounts for the period preceeding 1951 are unavailable its imports and exports figures for that period, as given in Table 1.2, can be used as substitutes for meaningfully determining the magnitude of the country's current account balances over the period. The role played by the export sector, especially by the growth of the

17.[c] J.M. Healey, The Economics of Aid, Routledge, 1971

17.[d] Lester B. Pearson, Partners in Development, Praeger, 1969 passim.

exports of cocoa, in securing the transformation and rapid development of the country's economy before 1951 was mentioned in the latter sections of Chapter 1, and the relative significance of the external sector in the economic management of the country in the period after 1951 was brought out in Chapter 4. Though the external sector (in terms of either its export or import sequent) made the economy so open, so long as the country's balance on current account remained favourable, external transactions brought immense gains to the country and through the acquisition of sizeable reserves of foreign exchange made it possible for it to purchase resources from abroad without any constraints.

The agricultural and mining sectors of the country's economy provided almost all the staples of the export trade; the capital requirements of the former were minimal and were mainly provided by the indigenous people whilst that of the latter which were more substantial, were financed almost exclusively by expatriate investors. Because much of the capital required for the financing of imported investment goods came from abroad, capital formation in the pre-1951 period made modest demands on the country's resources. Furthermore, the policy of economic prudence pursued during that period by the colonial administrators made it possible for the country's external trade to be conducted without the incidence of persistent deficits. According to available statistical records, with the exception of some twelve years,[18] the country had annually favourable visible trade balances from 1900 to 1950. However, because no data were kept on national accounts at that time it is not possible to analyse the relationship during that period between the level of resource utilization for development purposes and the intensity of pressure generated on the external balance.

(ii) Resource absorption for capital formation and the balance on current account - Compilation of statistics on the country's gross

18. According to the Blue Books, pub. by the Colonial Office these years were 1900, 1901, 1902, 1903, 1904, 1906, 1910, 1911, 1920, 1921 and 1937.

national product with resource allocation conforming to the groupings discussed in the early part of this chapter.

(a) Expenditure on gross national product in market prices (GNE) - Row 1

Expenditure on gross national product rather than on gross domestic product is being used because it is net of all foreign claims for factor income. Like many LDCs Ghana's GNP is usually of a smaller magnitude than its GDP and is thus a better basis for estimating its net contribution of its resource requirement.

(b) Consumption (C) - Row 2 – The figures are derived from the data in Appendixes D.1 and D.2 by adding up both private and general government consumption.

(c) Savings (S) - Row 3 – The figures in this row are obtained by product. This approach follows the conventional definition of saving and has been used in other studies.[19] Because the savings are derived from expenditure on gross national product which is obtained after settlement of "net factor income from abroad" they represent the real savings of the nation when considered in terms of the current account balance.

(d) Gross domestic fixed capital formation (I) - Row 4 – Gross domestic fixed capital formation is computed from aggregating the money values of the following: imported machinery, capital equipment and materials for constructions; buildings constructed with local materials; the capitalization of all grown perennial plants (like cocoa and oil palm) and land clearing. Capital formation in the subsistence sector is also included and the data in this respect are very rough estimates.

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19. Chenery and Strout, op.cit. p.685 indicate that:

$$V_t = S_t + C_t, \text{ and}$$

$$S_t = I_t - F_t,$$

where V_t = gross national product; C_t = consumption; S_t = savings, I_t = Investment and F_t = net inflow of foreign capital, all in year t. This gives the economic definition of savings, i.e. gross national product minus consumption (GNP - C = S); it also indicates that savings is a different concept from investment. As is obvious, what is saved is not necessarily invested.

Table 7.1 GHANA ECONOMY: ABSORPTION OF RESOURCES 1951-1966 AT CURRENT MARKET PRICES

¢' Million

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
(1) Expenditure on G.N.P.(G.N.E.)	482	481	524	687	676	702	734	776	884	946	1008	1084	1190	1345	1589	1779
(2) Consumption (C)	398	403	456	523	568	600	662	642	728	790	914	952	1054	1147	1460	1598
(3) Savings (S) = (GNE) - (C)	84	78	68	164	108	102	72	134	156	156	94	132	136	198	129	181
(4) Gross Domestic Fixed Capital Formation (I)	42	54	60	78	104	112	112	110	154	194	210	184	218	232	271	246
(5) Savings minus Investment (S - I)	+42	+24	+8	+86	+4	-10	-40	+24	+2	-38	-116	-52	-82	-34	-142	-65
(6) Increase in Stock (Inv.)	3	-	-5	5	-	10	-12	-2	20	22	-20	-12	-8	14	1	15
(7) Total exports less unrequited exports and less imports. X - (X' + M)	39	24	13	81	4	-20	-28	26	-18	-60	-96	-40	-74	-48	-143	-80
(8) S as % of G.N.E.	17.4	16.2	13.0	23.9	16.0	14.4	9.8	17.3	17.6	16.5	9.3	12.2	11.4	14.7	8.1	10.2
(9) I as % of G.N.E.	8.7	11.2	11.5	11.4	15.4	16.0	15.3	14.2	17.4	20.5	20.8	17.0	18.3	17.2	17.1	13.8

NOTE: Imports and Exports include non-factor services.

Sources: Appendices D.1 and D.2 and various issues of CBS Economic Survey

(e) Savings minus Investment (S - I) Row 5 - This row represents estimates of the country's savings - investment surpluses or gaps. The figures show quite clearly that in the early '50s the resources Ghana had at its disposal were more than enough for its development purposes.

Investments as shown in row 4, was relatively modest from 1951 to 1954, but it afterwards became greatly augmented and as it rose faster than savings the resource surpluses turned into shortfalls. As shown in the table the "savings-investment" gap became a permanent feature as from 1960.

(f) Increase in stock (inv) - Row 6 - This deals with changes in the stocks of raw materials, components, semi-finished goods, etc. A very high proportion of this item is imported.

(g) Total exports less unrequited exports and less imports

X - (X' + M) - Row 7 - The difference between total exports and imports reflects the balance of resources required for development. This follows from the explanation in footnote 19, where it is indicated as F_t with consumption netted out. In Appendix D, from which Table 7.1 was derived, the export item is a component of the country's GDP for this reason the export value has to be adjusted in order to convert the GDP into the GNP by deducting an amount equal to the value of "net factor income from abroad" as given in Appendix D. This amount is termed in Row 7 of Table 7.1 as "unrequited exports" and indicated by (X). The deduction arises from the fact that Ghana's GNP has hitherto been smaller than its GDP and this difference arises from the net factor income from abroad.

The figures in Row 7 thus represent the net outflow or inflow of resources as estimated on the basis of the GNP and show the extent to which the imbalance of the country's external sector developed during the '60s.

(h) <u>(S + M) - (I + X) equation for balance of resource supply and absorption</u> - To realise this important equation involving the four variables savings, investment, imports and exports from Table 7.1 the values in Row 6 on stocks have to be added to capital formation (I). After this adjustment has been carried out, subtracting Row 7 from Row 5 yields (S + M) - (I + X) = 0.

A study of Row 5, 6, and 7 reveals the flow of resources. In these years when savings exceeded investment the surplus of resources mostly went into exports. This happened in the early '50s. In 1953, for instance, stocks had to be decreased in order to augment the excess savings being consigned for export. This development is significant in that it demonstrates that in the case of Ghana the assertion concerned unexportable surplus resources in a pure "export-import" gap situation has not been supported by empirical evidence.

Another interesting feature of the flow of resources is the extent to which stocks are relied upon to supplement imports for the supply of resources. In 1957 (the year of the commencement of the Consolidation Plan) and again the period 1961-63 when export earnings became stagnant, there occured a heavy reliance on stocks for development purposes.[20]

20. Further consideration of the export sector is given below.

(i) Savings and gross fixed capital formation as a percentage of Expenditure on Gross National Product

In Rows 8 and 9 are given the percentage expression of the country's savings and gross fixed capital formation in terms of expenditure on the Gross National Product. A comparison of the figures in the two rows in the light of the resource requirements of the development plans - especially with respect to the Seven-Year Development Plan - is made later in this chapter.

(iii) General trade trends in Ghana's External Sector

The changing fortunes of Ghana in its international trade transactions during the 1955-66 period are shown in Table 7.2 and 7.3. In Table 7.2 the general fall in the prices of the country's exports is contrasted with the steady rise of its imports by means of index numbers using 1960 as the base year. Whilst the export price index which was as high as 117 in 1953 fell through the early '60s to 66, the price index of imports on the other hand, rose gradually from 92 in 1955 to 103 in 1966. The terms of trade during the period fell from 127 in 1955 to 70 in 1966.

The consequent losses from the deterioration of the terms of trade are estimated in cedis by comparing actual payments and receipts in current price with 1960 constant price equivalents. With regard to exports the losses incurred can be compared to the "export-import" gap concept of

Table 7.2 LOSSES FROM TERMS OF TRADE 1955 – 1966

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Index of Export prices (1960=100)	117	96	90	117	110	100	82	74	76	91	75	72
Index of Import prices (1960=100)	92	95	98	98	100	100	101	96	93	104	107	103
TERMS OF TRADE	127	101	91	119	110	100	87	77	82	88	70	70
Exports at current price(₵'million)[a]	202	182	192	220	240	246	244	240	234	247	252	219
Exports at 1960 prices (₵'million)[a]	172	190	214	188	218	246	276	324	308	271	334	306
Loss on Exports (– = gain) in ₵'million[a]	–30	8	22	–32	–22	0	32	84	74	24	82	87
Imports at current price (₵'million)[a]	194	198	214	190	252	296	326	270	290	283	376	285
Imports at 1960 prices(₵'million)[a]	212	208	218	194	252	296	322	282	312	272	350	277
Loss on Imports(– = gain) in ₵'million	–18	–10	–4	–4	0	0	4	–12	–22	11	26	8
TOTAL LOSS (– = gain) in ₵'million	–48	12	18	–36	–22	0	36	72	52	35	108	95

(a) Includes goods and non factor services.

Sources: Exports and imports figures at current prices for 1955 to 1960 from Economic Survey, 1961; 1955–60 Exports and imports figures at 1960 constant prices from Birmingham et al op.cit. p50 exports and imports figures for 1961–66 from Economic Survey 1968

Table 7.3 BALANCE OF PAYMENTS OF GHANA 1959-65 in (₵'million)

Current Account	1959	1961	1964	1965
Exports (F.O.B.)	226.2	237.6	327.8	327.6
Imports	-214.4	-274.8	-328.0	-446.1
Trade balance	+ 11.8	-37.2	- 0.2	- 118.5
Freight & merchandise Insurance	-18.4	-25.4	-20.2	-29.3
Other transportation	0.8	-5.8	-12.4	-11.0
Travel	-5.6	-10.2	-9.2	-11.0
Investment Income Receipt	-10.0	7.2	6.1	4.5
Payments	-13.2	-18.2	-24.3	-32.1
Other services	-6.0	-4.8	-16.3	-15.8
Private Transfers	-1.6	-9.[illegible]	-2[illegible]	-14[illegible]
Public transfers	-0.4	[illegible]	[illegible]	[illegible]
Net Invisibles	-34.4	-68.2	-98.9	-108.1
Net Current Account	-22.6	-105.4	-99.1	-227.6
Capital Account				
Private capital	12.8	-	31.6	87.5
Public capital	-6.0	-36.2	51.3	85.2
Errors & omissions	3.0	-8.4	-10.2	9.9
	9.8	44.6	72.7	182.6
Change of reserves	12.8	150.0	26.4	45.0
	22.6	105.4	99.1	227.6

Sources: C.B.S. Economic Survey 1960 Table 85 p.91 for 1959 figures; C.B.S. Economic Survey 1961, Table 106 p.125 for 1961 figures; Bank of Ghana for 1964 and 1965 figures.

"two-gap" theory. Whereas according to the "two gap" theory a shortage of foreign exchange is postulated to arise from a country's inability to sell abroad all its product meant for export, in the example portrayed by Ghana the loss was a consequence of the deterioration in the terms of trade, with all goods meant for export completely sold. From 1960 to 1966 the loss incurred by the country on its export transactions as a result of the adverse turn of the terms of trade (with 1960 as the base year) amounted to ₵383 million.

The import sector contributed its quota of losses as increasing purchases were made from abroad at rising prices but the extent of losses was not as great as that experienced in the export sector, just ₵15 million from 1960 to 1966.

The difficulties encountered in the external sector did not deter the Government from sticking to its planned programme of economic development. The consequence was the emergence of a series of balance of payments deficits on current account which as shown in Table 7.3, increased in magnitude towards the mid-'60s. To finance the export-import gap that had showed up the Government resorted to unrestrained drawing on the foreign reserves which very soon led to their near depletion as indicated in Table 7.4. The reserves which amounted to nearly ₵380 million at the end of 1956 and were equivalent to about 213 per cent of that year's value of imports shrank to their lowest level at the end of 1967 when at ₵17.4 million they were enough to pay for just over 7 per cent of that year's imports.

(iv) <u>Resource mobilisation for development via suppliers credits and increasing external disequilibrium</u>: In view of the dwindling receipts for the country's exports and the rapidly diminishing external reserves, the Nkrumah government made known its policy on how to finance in future

Table 7.4 GHANA: FOREIGN EXCHANGE RESERVES: ABSOLUTE: % OF EXPORTS: % OF IMPORTS – 1956–70

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Foreign Exchange Reserves (end of year in ₵'million)	379.6	342.9	362.5	339.2	297.3	[illegible]	[illegible]	85.6	66.6	26.2	41.2	17.4	22.2	19.1	27.8
Value of Exports (in ₵'million)	175.2	135.2	209.1	226.7	232.0	[illegible]	[illegible]	217.6	229.3	226.9	191.4	246.8	342.0	397.7	467.4
Value of Imports (in ₵'million)	177.8	193.4	169.2	226.0	259.2	[illegible]	[illegible]	260.8	243.2	320.1	250.6	261.5	314.0	354.4	419.0
Foreign Exchange Reserves (as % of imports)	213.5	177.3	214.2	150.1	114.7	[illegible]	[illegible]	32.8	27.4	8.2	16.4	6.7	7.1	5.4	6.0
Foreign Exchange Reserves (as % of Exports)	219.2	187.2	175.3	149.6	128.2	[illegible]	[illegible]	39.3	29.0	11.6	21.5	7.1	6.5	4.8	6.0

SOURCES:

For 1956 see – Bank of Ghana, Report of the Board for the Financial Year Ended 30th June, 1960, Appendix 5

For 1957–1962, Bank of Ghana, Report of the Board for the Financial Year Ended 30th June, 1965, Table 9.

For 1963–1966, Bank of Ghana, Quarterly Economic Bulletin, July–December, 1966 Table XIII.

For 1967–1970, Bank of Ghana, Report of the Board for the Financial Year Ended 30th June, 1971, Statement 20, p.60

the country's development programme. As was stated by Dr. Nkrumah himself, the Government's acquisitions of domestically produced resources for development projects would be paid for from loans raised internally, whilst external credits were to be utilised for the procurement of resources from abroad.[21] It was this connection reported that about £24 million (ie. ¢48 million) of the development plan expenditure was to be financed externally during 1961.[22]

The credit facility the Ghana Government found most accommodating was contractor finance/suppliers credit.[23] There were a few reasons for this. Agreement for this type of finance can be quickly reached and project implemented without undue delay. Secondly, whereas aid obtained through bilateral governmental agreements cannot be used for the setting up of industrial establishments, suppliers credits are available for such purposes. This was most convenient for the Ghana Government because of its desire to participate in the country's manufacturing activities in consonance with its socialist ideologies. The third reason why the Government found suppliers credit convenient was its availability for public as well as semi-public projects. With reference to the latter it became a suitable substitute for foreign private capital the flow of which was then on the decline.

In the early '60s the Ghana Government under its Second Development Plan had already committed itself to "promoting the establishment of not less than 600 factories of varying size producing a range of over 100 different products,"[24] but had established no clear priorities as to how best to achieve the declared objective. The offers of the providers of

21. See West Africa, 5th July 1961, p.761

22. Ibid.

23. Though there is a slight difference between the two terms they will be used interchangeably in this subsequent chapters. For information on their distinguishing features see e.g. Ayiba, "Contractor Finance and Supplier Credit" Nigerian Journal of Economic and Social Studies Vol. VII, July 1965. Ayida

24. Ghana Government, "Second Development Plan, 1959-64", Government Printer Accra, p.16

suppliers' credit at this juncture proved very attractive, especially when the country's receipts from export had become stagnant and its foreign exchange reserves were dwindling. But many things were acquired with this kind of credit accommodation which the country did not really need or which proved to be quite useless.[25]

From 1963 to 1964 the Ghana Government's foreign indebtedness increased nearly tenfold, mainly through the acquisition of suppliers' credits. In 1963 the Government's external debt was just over ₵38.0 million but in the following year it rose to a little over ₵346.0 million and suppliers credit constituted about 82 per cent of it. As shown in Table 7.5, though in percentage terms the suppliers credit component in the external debt decreased steadily after 1964; in absolute terms, however, it reached its peak in 1967, a year after President Nkrumah's overthrow, when it amounted to nearly ₵338.0 million.

Table 7.5 GHANA GOVERNMENT OUTSTANDING FOREIGN LIABILITIES AT THE END OF YEAR AND SUPPLIERS CREDIT COMPONENT

YEAR	Total of Liabilities ₵ million	Supplier's Credit ₵ million	Suppliers credit as a % of total Govt. foreign liabilities ₵ million
1961	16.3	n.a.	-
1962	25.2	n.a.	-
1963	38.4	n.a.	-
1964	364.8	286.3	82.6
1965	378.4	301.0	79.6
1966	395.3	283.6	71.7
1967	480.1	337.9	70.3
1968	491.9	311.5	63.3
1969	506.4	302.2	59.7

NOTE: Accurate information on the amount of suppliers' credit obtained during the 1961-63 is not available because of the unconventional procedure adopted by the politicians in acquiring the credits. Source: Central Bureau of Statistics, Foreign Trade and External Indebtedness" mimeo; Economic Survey 1968, and 1969-71, Accra.

25. See the printed version of a lecture by J.H.Mensah, (Minister of Finance and Economic Planning) on "The State of the Economy and the External Debt Problem," Accra, 1970, pp.5-6.

The equipment pedler's main preoccupation is the promotion of his firm's sales and not the contribution which his equipment will make to the expansion of the productive capacity of the country purchasing it. To the Ghana Government, however, it was the availability of the contractor finance/suppliers' credit and the derivable ability to demonstrate to the citizenry that something was being accomplished under the Second Development Plan that mattered most; questions relating to the terms on which the loans were secured, the amount of foreign exchange to be earned by the projects for servicing the debt incurred and other related issues were not given due consideration. The ease with which contractor-financed projects could be obtained attracted the Government and as a consequence the projects listed in Table 7.6, amounting to nearly ¢482.0 million, were acquired by June, 1966.

A study of the projects, as classified in the table, shows that over 50 per cent of them were expected to generate income in more than 12 years even though the loans by which they were financed had maturity periods ranging from 5 to 7 years. Secondly, of the projects financed by creditors from I.M.F. countries and costing nearly ¢390.6 million nearly 15 per cent was for manufacturing ventures; whilst as much as 33 per cent of the total credit of ¢91.3 million provided by the non-I.M.F. was so utilised.[26]

(v) <u>Early attempts to correct the external imbalance by means of Import Control</u>: As early as 1961 the <u>Economic Survey 1960</u> sounded a warning note about the adverse effects which the accelerated capital formation started under the consolidation plan might have on the country's foreign exchange reserves. During the year the Government incidentally took a number of measures which aimed at curbing domestic private demand.

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26. See J.H. Mensah, "<u>The State of the Economy and the External Debts Problem</u>," Ghana Publishing Corporation, Accra-Tema, 1970, and Leslie E. Grayson, "The Role, of Suppliers' Credits in the Industrialisation of Ghana," in <u>Economic Development and Cultural Change</u>, Vol.21, April, 1973, pp. 477 ff.

Table 7.6. ANALYSIS OF CONTRACTOR-FINANCED PROJECTS ACQUIRED BY JUNE 1966

	₵'million				
	Expected to Generate Income in				
SECTORS	Less than 6 years	6-12 years	More than 12 years	Others	Total
	(1)	(2)	(3)	(4)	(5)
A. <u>I.M.F. MEMBER COUNTRIES</u>					
1. Agriculture	30.1	32.7	-	-	62.8
2. Mining	-	-	-	-	-
3. Manufacturing	-	58.4	-	-	58.4
4. Construction	0.5	0.3	64.6	-	65.4
5. Transport & Communications	3.1	40.1	46.9	4.7	94.8
6. Electricity, gas, water	-	-	66.2	-	66.2
7. Unallocated	-	-	-	43.0	43.0
Total	33.7	131.5	177.7	47.7	390.6
As a percentage of total	8.6%	33.7%	45.5%	12.2%	100.0%
B. <u>NON-I.M.F. COUNTRIES</u>					
1. Agriculture	4.5	11.2	-	-	15.7
2. Mining	-	-	2.4	-	2.4
3. Manufacturing	-	31.3	-	-	31.3
4. Construction	-	0.2	2.9	-	3.1
5. Trans. & communications	0.2	8.0	4.9	-	13.1
6. Electricity, gas, water	-	0.5	1.7	-	2.2
7. Unallocated	-	-	-	23.5	23.5
Total	4.7	51.2	11.9	23.5	91.3
As a percentage of total	5.1%	56.1%	13.1%	25.7%	100.0%
C. <u>ALL COUNTRIES (A+B)</u>					
Total	38.4	182.7	189.6	71.2	481.9
As a percentage of total	8.0%	37.9%	39.3%	14.8%	100.0%

* Includes credits for imports of raw materials and consumer goods as well as projects that do not generate any directly measurable economic returns.

<u>Source:</u> J.H. Mensah, "The State of the Economy and the External Debts Problems. op. cit. pp. 6-7

The budget for the 1961/62 financial year therefore contained on any " austerity" proposals, but in general it sharply increased the rates of existing taxes and introduced new ones. Changes were made with respect to both direct and indirect taxes, but it was through the latter that the Government expected to achieve both immediate results and a more effective reduction in demand, especially with respect to imported goods. Concerning direct taxes all wage and salary earners with incomes of £G108.0(ie.¢216.0) per annum and above, cocoa farmers and companies were made to participate in a compulsory saving scheme: wage and salary earners with incomes of £G108.0 but less than £G120.0 were made to make a flat contribution of £G3.0, whilst those earning £G120.0 per annum and above had to pay 5 per cent of their earnings; cocoa farmers contributed 10 per cent of the price they were offered by the Cocoa Marketing Board and companies were obliged to commit 10 per cent of their chargeable income to the scheme.[27]

In addition to increased import duties the 1961/62 budget introduced purchase tax into the country for the first time: The tax ranged from 10 to 66.6 per cent and the maximum rates were imposed on such durable consumer goods as carpets, furniture washing machines, musical instruments, cameras, vacumn cleaners and refrigerators which were considered "luxury items". Since almost all these goods were being imported from abroad the aim of the tax was to reduce the demand of the private sector for imported non-essential consumer goods.[28]

In order to achieve an effective control over the country's foreign exchange transactions, foreign exchange regulations were on July 5, 1961 made to apply to all countries outside Ghana. Consequently, dealings in the currencies of all countries of the sterling area outside Ghana were affected by exchange control for the first time.

27. Most of the drastic budget reforms which were contained in 1961/62 budget were initiated on the advice of Professor N. Kaldor of Cambridge University.

28. Though the objective of the tax proposals was the selective control of the importation of different categories of goods in defence of the balance of payment position, it was stated by Mr. Goka, the Minister Finance, that the increases in the import duties were also partly meant to protect the developing local manufacturing industries.

The sharp increases in tariffs did not result in an absolute decrease in the value of imports, though it considerably reduced its rate of expansion. Whereas imports during the first half of 1961 amounted to ¢150.4 million and exceeded the value of those for the corresponding period of the previous year by 19 per cent; the goods imported during the second half of the year after the tariff increases amounted to ¢135.2 million and was only 1.6 per cent in excess of the value of imports for the second half of 1960.[29] However, in order to effectively contain imports in subsequent years the Government revoked all open general licences as from the beginning of December 1961 and instituted instead of quantitative restrictions, operated by means of specific import licences.[30]

The introduction of import controls brought to an end the liberal trade regime that the Government had initiated soon after the country's attainment of political independence because of its accession to G.A.T.T. Again, import restriction together with the extension of exchange control to include all countries of the sterling area outside Ghana signalled the passage of the country from the stage of an open economy under stress to that of a closed economy.

The institution of the import licensing system was seen by some observers not merely as a move to curtail the total volume of imports but also as a device to effectuate the orientation of some of Ghana's trade from the West to the East in consequence of some trade agreements the country had made with some centrally-planned countries.[31]

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29. C.B.S. Economic Survey 1961, Accra pub.1962, para.350. The cedi estimate is in terms of pre-1967 devaluation conversion.

30. Soon after the institution of import licensing, however it was felt necessary to place some essential commodities on Open General Licence. The OGL list was amended from time to time, but the following items were among those on the 1961 list: rice, corned beef, pilchards, mackerel, sugar, milk, flour, soap, sardines, and tomatoes. (Economic Survey 1961, para. 334.

31. No official statement was made at that time as ~~the~~ to whether the orientation of trade as suggested by some commentators was one of the objectives, but after the overthrow of President Nkrumah it was mentioned in the Economic Survey 1966, (para.117) that trade orientation was one of the intentions for adopting the import licensing system.

The external transactions measures adopted in 1961 on the whole had the effect of restraining imports in the years immediately following. The yearly values of imports exceeded the ₵285.7 million level recorded in 1961 only once before President Nkrumah's government was toppled in a coup d'etat in 1966. In 1962 the value of imports fell by 18.3 per cent from the 1961 level to ₵233.5 million and subsequently the annual figures fluctuated in a moderately rising trend before it rose sharply in 1965 to ₵320.1 million, exceeding the 1961 figure by 12.0 per cent.

Table 7.7 IMPORTS CLASSIFIED INTO CONSUMERS' AND PRODUCERS' GOODS 1961 - 1965 IN CURRENT PRICES

	1961		1962	
	Value (₵'m)	%	Value (₵'m)	%
Durable and non-durable consumers' goods	141.3	49.5	111.8	47.9
Producers' materials, capital equipment, fuel & lubricants.	144.4	50.5	121.7	52.1
Total	285.7	100.0	233.5	100.0

	1963		1964		1965	
	Value(₵'m)	%	Value(₵'m)	%	Value(₵'m)	%
Durable and non-durable consumers' goods	102.8	39.4	81.6	33.6	109.9	34.3
Producers' materials, capital equipment, fuel & lubricants	158.0	60.6	161.6	66.4	210.2	65.7
Total	260.8	100.0	243.2	100.0	320.1	100.0

Sources: C.B.S. Accra, Economic Survey 1961, Table 99; Economic Survey 1964, Table 13 and Economic Survey 1967, Table 14.

Table 7.7 sets out the distribution of imports between consumers' and producers' goods for the period 1961-1965. An examination of the data shows that the import controls resulted in a steady decline in the amount of consumers' goods imported from ¢141.3 million in 1961 to ¢81.6 million in 1964. On the other hand, apart from a ¢22.7 million decrease which occured in 1962 from the previous year's figure, the imports of producers' goods continued to increase both absolutely, from 1963 to 1965, and as a proportion of the total value of imports, from 1961 to 1963. Again, when there occured an influx of imports in 1965, the amount of consumers' goods (both durable and non-durable) imported that year was at ¢109.9 million far below the figure for the same category of goods imported in 1961.[32] The situation was, however different with respect to producers goods. With the exception of that for 1962, the annual figures for producers' goods imported after 1961 turned out to be higher than the 1961 figure and kept steadily rising. In 1963 it was at ¢158.0 million, ¢13.6 million higher than the corresponding figure for 1961 and in 1965 it escalated to ¢210.2 million

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32. It was often complained that the administration of the import licensing system was tainted with widespread corruption and malpractices. The commissions of enquiry which were set up during and after the Nkrumah regime found ample evidence to support the allegations. (See Republic of Ghana, "Report of the Commission of Enquiry into Irregularities and Malpractices in the Grant of Import Licences." Accra, 1967 and Republic of Ghana, "White paper on the Report of the Commission of Enquiry into Alleged Irregularities and Malpractices in connection with the Grant of Import Licences."Accra - Tema, W.P. No.4/67; and office of the President, Ghana, "Report of the Commission of Enquiry into Trade Malpractices in Ghana." Accra, 1966.

Statistical evidence, however, seems to indicate that the malpractices did not prevent the principal trade officials from reducing year by year - from 1961 to the end of 1964 - the amount of consumer goods to be imported into the country in order to ease the pressure on the balance of payments. An upsurge of imports of such goods took place in 1965 just as it happened to the imports of producers' goods, thereby maintaining in 1965, the 1964 ratio between the imports of consumers' and producers' goods. The great increase in imports had a political reason: which was to fill the shops and factories with goods and raw materials in order to impress the foreign visitors attending the OAU meeting in Accra that year. The corruption which occured was practised by the Trade Ministers and was in connection with the improper allocation to various importers of the quantities approved for importation. This was to have been done according to certain laid down rules for equity reasons.

Imports of producers' goods kept on increasing because the Government which accounted for a very high proportion of the capital formation of the preiod, pursued investment policies which did not lead to their containment. It is difficult to agree with J. Clark Leith that the import licensing system broke down as from 1964 through corruption. (See his "Foreign Trade Regimes and Economic Development Ghana," National Bureau of Economic Research, New York, 1974, p.7).

In 1961 imports were almost evenly divided between the two classes of goods, but during 1964/65 about 66 per cent of the total value was made up of producers' goods. This indicates that the import controls resulted more in shifting as much as possible of the resources obtained through imports from consumption to especially investment projects than in effectively curbing the country's total imports in order to correct its external imbalance.[33] As can be seen from Table 7.8 the share of gross domestic fixed investment which was undertaken by the Central Government during the 1960s before the overthrow of President Nkrumah grew exceedingly large; it reached its highest in 1964 with 66.6 per cent.

The high rate of investment by the Central Government was financed externally by means of loans, suppliers' credits and the running down of foreign exchange reserves, (as has been indicated earlier) and domestically by deficit financing.[34] The Government was advised to refrain from this type of financing by the missions of the International Monetary Fund and the International Bank of Reconstruction and Development that visited the country in 1965. The Fund Mission recommended, among other things, that:

(a) both recurrent and capital expenditure of the Government should be covered by revenue and by non-inflationary borrowing;[35]

(b) a temporary halt should be placed on new development projects financed by short or medium term suppliers' credit;

(c) measures should be taken to cut overall domestic demand and,

(d) the issue of import licences should be based on strict priorities.[36]

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33. Among the capital projects undertaken by the Central Government during the '60s were the Akosombo Dam (about ₵116.0 million); cocoa silos at Tema (about ₵14.0 million); cocoa factory at Tema (over ₵10.0 million) Tema Harbour (about ₵48.0 million) and an Inter-locking complex at Tema (over ₵8.0 million).

34. See - Naseem Ahmed, Deficit Financing, Inflation and Capital Formation - The Ghanaian Experience 1960-1965, Weltforum Verlag, Munich, 1970

35. The World Bank Mission who visited the country in August and November, 1965 on the invitation of the Government made a recommendation similar to this. See - C.B.S., Economic Survey, 1965, para.197 and 198

36 This was contained in a budget statement to the Ghana National Assembly by the Minister of Finance, Mr. K. Amoako-Atta on 10th Sept.1965. See - Parliamentary Debates, Vol.40, Accra, Sept.1965, cols.716-718

Table 7.8 GROSS DOMESTIC INVESTMENT AT 1960 CONSTANT PRICES, 1958-65 (₵'million)

		1958	1959	1960	1961	1962	1963	1964	1965
I.	Gross Domestic Fixed Investment	116.0	164.0	194.0	200.0	182.0	216.0	221.0	250.0
	1. Government Sector	24.6	44.2	75.4	104.8	108.2	112.6	147.2	161.2
	2. Non-Government Sector	91.4	119.8	118.6	95.2	73.8	103.4	75.8	-
II.	Increase in Stocks	-2.0	20.0	22.0	-20.0	-10.0	-8.0	26.0	-9.0
III.	Gross Domestic Investment (I + II)	114.0	184.0	216.0	180.0	172.0	208.0	247.0	241.0
		Percentage							
	Gross Domestic fixed investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	1. Government sector	21.2	27.0	38.9	52.9	59.5	52.1	66.6	64.5
	2. Non-Government sector	78.8	73.0	61.1	47.6	40.5	47.9	33.4	35.5

Note: "Government sector" here means the Central Government and "Non-Government sector" refers to the rest of the economy, including the private sector, public corporations and local authorities.

Source: Naseem Ahmad, Deficit Financing, Inflation and Capital Formation. The Ghanaian Experience 1960-1965, Weltforum Verlag, Munich, 1970, Table 14

(vi) Later techniques of trade control - In order to reduce the ease with which merchants could import goods into the country, further restrictive measures were introduced during 1964. For example, from April of that year it became mandatory for the approval of the Bank of Ghana to be obtained before credit facilities of over ₵10,000 could be given by any authorised local financial institution to an importer and, concurrently, all importers of consumers' goods were required to make a pre-deposit of 15 per cent of the value of their orders before they could be issued with letters of credit.[37] This regulation by discriminating between consumers' and producers' goods made quite evident the unwillingness of the Government to adopt restrictive measures against the importation of the class of goods it required for its investment programme.

In March 1965 the Government restricted still further the procurement facility of importers by introducing a compulsory 180-day credit scheme which made it binding on all importers to secure from overseas financers credit terms of that duration for the pre-shipment payment of their imports.[38] The onus of finding overseas credit for the pre-financing of imports made it more difficult for many merchants to import from abroad, but at the same time it made imported goods more costly and the terms of trade less favourable for Ghana.[39]

(vii) Further import tax restructuring and spin-off effects - The fiscal reforms undertaken in 1961 were meant to curb the growth of the demand of the private sector, especially for imported goods. The great reduction in the value of imported consumers' goods and contemporaneous heavy fall in the yield of

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37. Ghana Government, Commercial and Industrial Bulletin, Accra, 17th April, 1964

38. It appeared in the 7th November, 1964 issue of West Africa, page 1265 that the Ghana Government had suggested to a number of leading merchant firms that they should themselves arrange overseas credits for a proportion of their import of consumer goods. However, it was not until March 1965 that the 180-day credit scheme came into operation.

39. The author was informed by an official at the Ghana Ministry of Trade that on the whole, the 180-day credit scheme added roughly 15 per cent to the landed cost of goods (i.e. before imposition of customs duty).

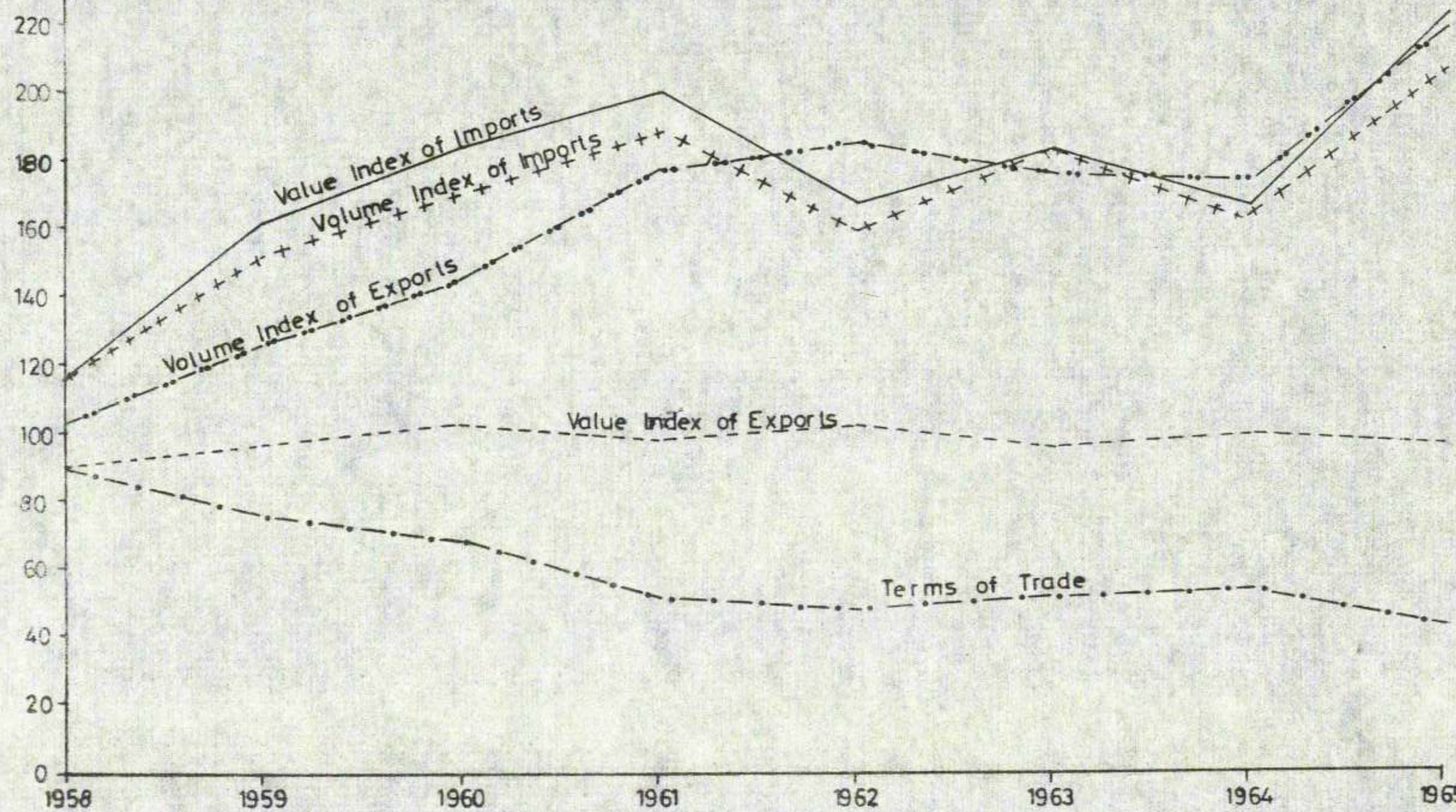
the cocoa export duty resulted in an appreciable decline in the revenue for the exchequer; this compelled the Government to undertake another notable tariff restructuring in January 1965 in order, at least, to reduce the budget deficits that had tended to become persistent after 1961. The fiscal goal of easing the pressure on the balance of payments thus became rivalled by that of revenue raising.

In the exercise, opportunity was taken to streamline the tax-collection procedure which in certain respects had become onerous. The purchase tax which was levied only on imported goods was abolished in respect of all imports except motor vehicles and a sales tax applicable to a wide range of items, including both domestic and foreign manufactured goods was instituted. Because of the sharp increases in the tariff rates that were introduced at the same time, the sales tax had a pronounced price effect on imported manufactured goods.

An extremely high proportion of the goods obtained from abroad had no domestically produced substitutes and therefore the demand for them within the country was highly price inelastic. In view of this the 1965 tax restructuring was not effective in curbing demand for imported consumer goods. The sales tax, which was levied at 10 per cent on the sales price of the goods that attracted the tax, thus turned out to be more successful as a revenue raising instrument than as a balance of payment corrective device.

(viii) Trade orientation and other strategies for better prices for domestic exports - The country's external imbalance would not have become persistent after its emergence at the close of the '50s if the value of its merchandise exports had increased at least as rapidly as that of its imports during the same period, with the relationship between the other transactions remaining more or less unchanged. But trade developments within the external sector did not turn out that way. As shown in Table 7.9, after 1958 the value of exports varied little up till 1965 whilst that of imports, as described earlier on, distinctly manifested a rising trend in its fluctuations, so that whilst in 1959 there was not much difference between it and that of exports, in 1965 at ₵320.1 million it was 41 per cent greater than the value of exports for that year.

INDEXES OF VOLUME AND VALUES OF EXPORTS AND IMPORTS - 1958 - 1965 (1954 = 100)



BASED ON TABLE 7.9

FIG. 3

As can be seen from an examination of the volume index of domestic exports, between 1958 and 1961, the volume of exports expanded by about 73 per cent, but its value during the period increased by only 10 per cent. This was because domestic export prices fell by nearly 37 per cent over the period. (For an illustrative diagram of this see Fig.3).

The prices of domestic exports became depressed as a result of an appreciable fall in the price of the country's major export crop, cocoa, the output and shipment of which had expanded by 61 per cent from the 1958/59 season to the 1960/61 season. In absolute figure the quantum of cocoa beans exported rose from 255,000 tons in the 1958/59 season to 411,000 tons in 1960/61 and the average London "spot" price fell from £570.0 per ton in 1958/59 to £360.0 per ton in 1960/61. (See Tables 3.3 and 4.4).

In order to prevent the prevailing rising output of cocoa beans from precipitating further price falls and also to secure better prices for the country's merchandise export in general, the Ghana Government in 1961 initiated moves to divert some of the country's trade from the West where almost all its export markets had been created, to especially the socialist countries of Eastern Europe and China. Trade missions were accordingly sent to Russia, Yugoslavia, Czechoslovakia, China and most of the other Eastern European countries.[40]

With each country that was visited a bilateral agreement involving trade, technical assistance, credits and repayment schemes were concluded. Regarding trade, the goods that were to be exchanged were specified in each case and it was intended that transactions, which were to be on credit basis

40. Bilateral trade agreements were also signed with non-Eastern Bloc countries. These included Israel (1958), United Arab Republic (May 1961), Upper Volta (June 1961), Guinea (July 1961), Mali (July 1961) and the Netherlands (1961). The agreements with the socialist countries (Albania, Bulgaria, China, Cuba, Czechoslovakia, German Democratic Republic, Hungary, Rumania, USSR, and Yugoslavia) were all signed in the latter half of 1961 with the exception of that with Cuba which took place in January, 1962.

Table 7.9 CURRENT VALUES AND VOLUMES AND PRICE INDEXES
VISIBLE TRADE, 1958–1965

¢' million

	1958	1959	1960	1961	1962	1963	1964	1965
Value of exports including re-exports	209.1	226.7	232.0	229.0	230.1	217.6	229.3	226.9
Value of Imports	169.2	226.0	259.2	286.8	235.1	260.8	243.2	320.1
Balance of visible trade	39.9	0.7	-27.2	-57.8	-5.0	-43.2	-13.9	-93.2
			(1954 = 100)					
Volume index of domestic exports	102	124	144	177	187	178	176	220
Price index of domestic exports	90	80	70	57	52	53	57	45
Volume index of imports	118	153	171	188	161	184	165	210
Price index of imports	101	104	107	107	103	100	104	105
Terms of trade (visible trade)	89	77	65	53	50	53	55	43

Sources: C.B.S., Economic Survey, 1968, Accra, Table 14 and Quarterly Digest of Statistics, Accra, various issues.

were to balance at the end of each renewable agreement period, thereby avoiding any involvement of cash settlement.[41]

The following are representative of the type of goods which Ghana either offered or was requested to supply in the agreements :-

SOVIET UNION	Cocoa beans (35,000 tons in the first year to increase to 60,000 tons), and towards the end of the 5-year period rubber, palm oil, peanuts and other commodities.[42]
CHINA	Cocoa beans, industrial diamonds, tobacco and coffee.[43]

The bilateral trade partners on their part undertook to supply Ghana with plant, machinery and in some instances, manufactured consumer goods and for the purpose of handling effectively the importation and marketing of such supplies, the Government established a mercantile organisation, the Ghana National Trading Company, which started its operations in October, 1961.[44]

Towards the close of 1960, probably in anticipation of the impending trade missions to the eastern socialist countries and the new demand for cocoa that might be generated by them, pronouncements were made by some public officials that Ghana's cocoa selling organisation would be wholly or partly transferred from London to Accra.[45] A widely held view in Government circles was that buyers from the eastern socialist countries could compete for the country's cocoa on more equitable terms in Accra and this might increase the probability of effecting an improvement in the price of the commodity. The transfer of Ghana's cocoa selling activities from London took place before the 1961/62 season commenced.[46]

41. Mr. Amoako-Atta, the Minister of Finance, reported to the Ghana National Assembly on 10th September 1965 that one of the commendations of the IMF mission to the country earlier in the year was that Ghana's existing bilateral and barter arrangements with the trade agreement countries should be reconsidered with a view to reducing their harmful impact on Ghana's economy. See - Parliamentary Debates, Vol.40, op.cit.
42. See - Africa Diary, November, 1961, p.242.
43. Ibid. 1961, p.99
44. See - CBS., Economic Survey, 1961, para.337, For the purpose of State trading see - Gilbert P. Verbit, Trade Agreements for Developing Countries Columbia University Press, New York, 1969, chapter 6.
45. West Africa, January,1961, p.17
46. The Economist, London, April,21, 1962, p.278

In addition to the individual efforts that it was making to secure better terms of trade and wider markets the Ghana Government joined up with five other major cocoa producing countries to form the Cocoa Producers' Alliance in April, 1962.[47] The objective of the Alliance, whose members between them accounted for about 82 per cent of the total world output of the crop, was to bring about an improvement in the prices of the crop then falling rapidly in world markets primarily on account of the unprecendented high and still expanding output of the crop. After much deliberation the Alliance was able in 1964 to agree on a scheme involving export quotas for controlling supplies reaching the world markets and a formula for fixing indicative prices at the beginning of each season. The latter was to be the responsibility of the Council of the Alliance and the prices set were not to be below the average of quoted prices for the immediately preceeding 12 months.[48]

The provision governing request for Alliance members to withdraw from the market when prices fall below that determined as the minimum acceptable for the current season was invoked in October, 1964 and members were accordingly asked to suspend sales as from the 15th of that month.[49] However, the current record output and the large stocks of beans then being held by manufacturers together with leakage sales caused the ensuing withdrawal action of the Alliance members to have no effect on falling prices.[50] Consequent to this Ghana set on fire 500 tons of its stock of cocoa beans[51] in an attempt to ease the depression in prices through a reduction of the stock held by producers.

(ix) Ghana's ability to exploit the bilateral trade agreements - The benefits Ghana could derive from the bilateral trade pacts were determined by such factors as the types and unit values of the commidities it could supply

47. Encyclopaedia Britanica Book of the Year, 1963, pp.208-209. Lagos was made the Headquarters of the Alliance.
48. West Africa, August 22, 1974, p.934
49. Ibid. October, 24, 1964, p.1206
50. Ibid. November, 21, 1964, p.1302
51. Ibid. December, 19, 1964, p.1433

as well as its ability to supply them in the requisite quantities. The representative lists given above contain the variety of goods which Ghana undertook to supply. The material point to ascertain in this connection is the country's capacity to supply these goods at the time it made these trade compacts. The figures in Table 7.10 show the country's export performance with respect to the mentioned items during the period 1958-60.

Table 7.10 GHANA'S TOTAL EXPORTS OF PRINCIPAL PRODUCTS NAMED IN THE BILATERAL TRADE PACTS

£'000

		1958		1959		1960	
Item	Unit	Qty.	Value	Qty.	Value	Qty.	Value
Coffee	cwt	9.4	173.8	39.6	760.2	47.1	637.6
Cocoa beans	ton	197.3	124,636.0	250.2	137,559.6	302.8	132,868.0
Tobacco (processed & unprocessed)	cwt	-	0.06	-	0.1	0.005	1.2
Natural Rubber	ton	0.4	97.0	0.6	127.6	0.8	134.0
Palm oil	ton	-	0.02	-	0.008	-	0.012
Diamond	carat	3,281.0	17,324.0	3,116.6	17,318.4	3,282.0	19,677.0

Source: Central Bureau of Statistics, Trade Report Vol.II, 1959 and 1960, Table. XXVIII.

Besides cocoa and industrial diamond the items mentioned collectively contributed to less than one per cent of the country's annual export earnings during the late '50s. Peanuts, for example, were then not recorded as an export item and domestic output did not then exceed more than 44,000 tons per annum. Coffee production did not reach 5,000 tons until 1964 and domestic cultivation of leaf tobacco was undertaken in support of an infant tobacco industry and local output had to be supplemented with imports. Natural rubber and palm oil which were the two leading silvian export products in the latter half of the nineteenth century were reduced to insignificant merchandise exports soon after the introduction of cocoa.

Had Ghana's agricultural sector the capacity to expand the production of these commodities, the country could have taken full advantage of the trade pacts to increase its export earnings from the sector in order to supplement the dwindling proceeds from cocoa. But from its very organisation and history the sector appeared to lack resilience which would have enabled it to achieve some degree of diversification, as opposed to its monocultural tendency, by embarking once again on the cultivation of rubber and oil palm for which it has comparative advantage in the Heckscher-Ohlin sense.

As it turned out, of the many items that Ghana had to supply it was only cocoa that the government could dispose of in ample quantities. The country was not able to exploit the new markets that had been offered to it for the other items. The socialist trading partners, on the other hand, supplied a variety of industrial goods, but because of their planned economies they could not quickly incorporate their new commitments into their supply systems and this resulted in Ghana having a positive overall trade balance in 1962, the first year of the operation of the trade and payments agreements. The situation caused the Economic Survey for 1962 to complain that the implementation of the bilateral trade pacts had "in effect amounted to the almost ridiculous position of Ghana offering interest free loans to certain industrialised countries."[52]

In subsequent years, however, the situation was reversed and in 1965, for example, the socialist bilateral agreement countries, as a group ranked next to the Sterling Area as the country's second leading importers, thereby displacing the European Economic Community and the Dollar Area.

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52. Central Bureau of Statistics, Economic Survey, 1962, para.317

The group's exports to Ghana that year amounted to ₵84.2 million, equivalent to 26.3 per cent of total imports for the year, as compared to Ghana's exports to the group of only ₵48.3 million, which was about 21.3 per cent of its total exports for the year.[53]

Ghana embarked upon the orientation of its trade in order to expand the markets for its exports and through that to secure an improvement in both its terms of trade and foreign exchange earnings. Though it succeeded in finding new trading partners in the East, it could not exploit to the full the opportunities it was offered because of the extremely limited range of its merchandise exports and inability to supply in sufficient quantities some of the products requested for by the new trading partners. Had Ghana's agricultural sector been in a position to supply those items which were indicated in the bilateral trade pacts by the socialist countries, the benefits that would have accrued to it from such pacts would have been considerable. However, what was highlighted for external trade purposes was that the agricultural sector lacked diversity of activities and ready responsiveness to external demand.

(x) Effect of imbalance on Government's trade policy - The fall in the prices of Ghana's exports, expecially of cocoa, which began towards the end of the '50s was never expected to be prolonged and so pronounced; but because it turned out to be so, it rendered indeterminate any terms of trade improvement which might have resulted from the trade orientation that was undertaken during the '60s. One effect of the falling prices was that despite the considerable increase in the volume of its exports in the '60s the country's foreign exchange earnings became stagnant.

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53. C.B.S., Economic Survey, 1967, Table 18. The degree of trade orientation can be appreciated by comparing these figures with those in Tables 4.5 and 4.6 of this study.

The Government's overriding concern was with attaining a more rapid economic development. The country's gross domestic product had grown at an average compound annual rate of 4.8 per cent between 1955 and 1962[54] and the object under the Seven-Year Plan launched in 1963/64 period was to make the economy grow at the rate of 5.5 per c ent per annum.[55] But within this broad natural objective President Nkrumah declared upon launching the Plan that his Government

> "... shall ensure that the growth rate of the public and cooperative sector of our economy will exceed the growth rate of the private sector, particularly in industry and agriculture." 56

Trade policy changes and fiscal reforms were undertaken with the view to increasing the resources that the Government could garther for its development projects and for their attainment at the rate set. The record of national performance in respect of savings in the '60s however showed that the resources consequently obtained fell short of the amount required. The figures in rows 8 and 9 on Table 7.1 show that on the whole national savings were higher than gross domestic fixed capital formation during the '50s. But the situation reversed in the '60s. In the latter decade the country's savings performance as a percentage of its GNP was less satisfactory than it has been in the decade immediately preceeding; the percentage for the period 1951-59 as shown in Table 7.1 was 16.2 whilst that for the period 1960-65 was 12.0. In contra-distinction, investment on the whole increased in magnitude during the '60s, with an average of 18.5 per cent of GNP during the period 1960-65 as compared with an average of 13.5 per cent during the period 1951-59.

As a growth rate of 5.5 per cent per annum and a capital output ratio

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54. The Economy of Ghana, op.cit. p.19

55. Ghana Government, Seven-Year Development Plan, 1963/64-1969/70 Government Printer, Accra (no date) p.25. However the proportions of annual outputs as given in Table 13.7 of the Plan yield a growth rate figure of 5.9 per cent per annu..

56. Seven-Year Development Plan, op.cit. p.XI

of 3:5 had been adopted or assumed by the planners of the Seven-Year Development[57] it followed logically that the amount of savings required for the successful fulfilment of the Plan should be at least 19.25 per cent of GNP. If, however, use is made of the then prevailing capital output ratio of 2:9[58] instead of 3:5 assumed by the planners, then the savings requirement for the successful attainment of development targets should not be less than 15.95 per cent of the GNP. As shown in row (8) of Table 7.1 not even the lowest figure of 15.95 per cent was attained as from 1963, the year which marks the beginning of the Seven-Year Development Plan.

It is stated in the Seven-Year Plan that for every £3.5 worth of capital goods that would be used in the recorded sector almost £1.1 of it would have to be imported.[59] Granted that the entire capital imports were to be financed by means of overseas credits, the remaining £2.4 of it would have to be secured with domestic savings. Thus with a domestic component of the capital output ratio being equivalent to 2.4 and a planned growth rate of 5.5 per cent of GDP per annum, then the savings required for the attainment of the planned growth rate would have to be at least 13.2 per cent of GNP.

Row (8) of Table 7.1 shows that after 1963 Ghana's savings as a percentage of GNP fell below the requisite percentage level, except in 1964 when 14.7 per cent was obtained. Harrodian formulation of GC = s - b provides a possible solution in an international trade situation. The Ghana Government reacted along such lines. Confronted with low national savings as a percentage of output and determined to achieve the objectives of the Seven-Year Development Plan, Nkrumah's regime had little or no choice but to fall on more imports to make up for the shortfalls of domestic savings.

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57. Ibid. p.242
58. The Economy of Ghana, op.cit. p.20 On page 206 are also given two sets of estimates of capital output ratio of the country, one taking into account cocoa farms and the other not.

59. Seven-Year Development Plan, op.cit. p.242

This points to why the Government became too prone in the '60s to receive suppliers' credits and Eastern loans in the absence of adequate official aid from the West. Its pre-occupation was not with correcting the external imbalance that had emerged but rather with acquiring as much external resources as possible in the prevailing balance of payments difficulties.

Investment performance as expressed in row (9) was generally quite satisfactory in the '60s. It reached 20.0 per cent in 1960 and 1961, but showed signs of declining afterwards. When considered in the light of the growth rate specified for the Seven-Year Plan and the capital output ratio assumed for it, the achieved level of investment as from 1963 was below the requisite 19.25 per cent. But when however the economy's prevailing lower capital output ratio of 2.9 is taken, then the investment performance from 1963 to 1965 was above the 15.95 per cent level that was sufficient for the objectives of the Plan.

It was possible to invest more than was saved domestically because of resources obtained through imports. As shown by the figures in rows(5) and (7), usually when investment exceeded savings - indicated by negative figures - there was an excess of imports over exports, also indicated by negative figures.[60]

The allocation of imported resources appeared not to have been carried out in accordance with the objectives of the Plan as it caused the Economic Survey for 1965 to complain that during the year the Plan existed only in name and that though the Government's expenditure ran at a level much higher than was planned for, the stipulated growth rate of 5.5 per cent per annum was not attained. One cause instanced for this was that the composition of expenditure by Government "was terribly out of line with the Plan estimates."[61]

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60. Eacy year's difference between the excess of investment over savings and the value of net imports is reflected in "Increase in Stock" (Row 6).

61. Economic Survey, 1965, para.380

The Economic Survey again pointed out that

> "The result of this was that even with this record level of imports the productive sectors were starved or their raw materials and spare parts requirements. This was especially the case of non-government industrial establishment." 62

Besides this complaint about the allocative inefficiency of the Government, there was also the bald remark that the level of the 1965 import bill which the Economic Survey described as "excessive, was fixed in order to fill the shops with goods for the OAU meeting."[63] This testifies that to the Nkrumah regime attempts to rectify the external imbalance were of secondary importance to some of the Government's own activities and considerations which were non-economic. From the standpoint of the financial conduct then required of the Government the Economic Survey had this to say

> "By the turn of the year, it was obvious that the government was not prepared to subject its policies to the financial discipline that was recommended by the missions." 64

C. SUMMARY

The "two-gap" and the "absorption" theories provide insights into the varying conditions of the supply and use of resources by developing countries in the early stages of growth and also throw light on the importance of imported supplies in supplementing the domestic resources of such countries for the successful implementation of their development programmes. The Harrodian model incorporates a means for determining the balance of resources needed from external sources once the growth rate for development is specified.

The "two-gap" theory advances a definite sequence of occurence of a "savings-investment" gap preceding an "export-import" gap in the

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62. Ibid. para.377
63. Ibid. para.126
64. Ibid. para. 199. The missions were those of the World Bank and the I.M.F.

development process of LDCs. This implies a satisfactory improvement in resource supplies of domestic origin as development progresses and outstanding shortages of resources to be obtained from abroad arise from restrictive international trade practices. The fixity of the sequence as thus advanced is, however, not borne out by empirical evidence, for the reason that the theory does not embody the consequences of the instability of prices which is characteristic of many primary products that enter world trade and does not also take due account of the easing of the flow of world trade through the signing of a number of international trade agreements.

One of the most serious problems facing LDCs in world trade is the movement of the terms of trade which is often against them. Because of them a country's resource surplus position can be turned in a short space of time into one reflecting a "saving-investment" gap.

The accelerated economic development programme which was started by Ghana towards the close of the '50s soon led to the emergence of an external imbalance in the country's trade transactions and a consequent near exhaustion of its foreign exchange reserves. The imbalance did not prove to be temporary, as in the case of some LDCs because of the Government's pursued policy of sustained high level of economic development requiring a great deal of capital goods; it was rather worsened by the country's deteriorating terms of trade. In the circumstances, Ghana's capacity to earn more foreign exchange could have been considerably increased had it possessed a more diversified agricultural sector that could have placed it in a better position to exploit the opportunities offered to it by the bilateral trade agreements it had with the Eastern countries.

CHAPTER 8

GHANA'S AGRICULTURE[1] - CHARACTERISTICS, RECENT DEVELOPMENTS AND EFFECTS OF BOTH ON TRADE AND INDUSTRIALIZATION

(i) Introduction: In several of the proceeding chapters the study has highlighted the signal importance of international trade to the economic growth of Ghana and especially in the last chapter, has also shown quite clearly that it is the value of the country's exports that has been the main determinant of the value of imports of capital and consumer goods that it can procure in return. More importantly, with respect to both the country's export trade and its economic development in general the pivotal role played by the agricultural sector has been underscored at a number of points. The fact has been brought out that it is the earnings of the sector that besides borrowings that has so far provided most of the finance for the country's economic development and the situation is expected to remain so for some time to come.

The contribution of the agricultural sector is brought out in Chapter 1 by indicating how through the exports of such primary commodities as palm oil, rubber, and cocoa the country after the middle of the nineteenth century gained a recognition for itself as an important supplier of the mentioned primary products to the international emporum. The chapter also makes mention of the appreciable rise in the living standards of the indigenous people in consequence of the successful establishment of the cocoa industry in the country. Chapter 5 embodies an account of the Lewis Report which stressed the fact that an increase in the country's food production was indispensably necessary if any measures to promote industrialization were to be attended with success. And again the importance of the agricultural sector

1. Agriculture is used here in the narrow sense and thus excludes forestry and fishing.

to the country's trade and rate of growth was sketched out in the analysis of Chapter. 7. There, a point was made of how in its trade orientation of 1961 the country failed to considerably expand its export earnings by not being able to make full advantage of the new market opportunities offered by the Eastern European countries. This failure, as was noted, arose out of the inability of the agricultural sector to produce the goods that were requested by the new trading partners.

When the examples instanced above are reflected upon the propulsive role which the country's agricultural sector activity began to play within the economy about a century ago has in recent decades been steadily diminishing as a result of the sector's failure either to generate new lines of production or techniques as the occasion demands or to adequately restructure old ones in response to changes in demand. Because of the functional relationship between the country's trade and growth performance and the state of its agriculture, we shall now turn to a consideration of the latter.

(ii) Salient characteristics of Ghana's agriculture has acquired in the course of its evolution and which mostly contribute to its performance as well as its transformation.

(a) Prevalence of subsistence production: A considerable proportion of agricultural production in the country is for subsistence. This can be inferred from the statistical information given in Table 8.1. In 1970, only 50 per cent of the agricultural holdings in the country were used mainly for commercial production and the remainder either solely or mainly put to subsistence production. In some regions, however, the percentage of holdings devoted to subsistence cultivation was quite high. This was particularly so in the Northern and Upper Regions where the proportion so employed was over 90 per cent.

Table 8.1 NUMBER AND TYPES OF HOLDINGS
1970

Region	Subsistence only		Mainly Subsistence		Mainly Sale		Total	
	No.	%	No.	%	No.	%	No.	%
Western Region	3,100	5	16,500	24	48,500	71	68,100	100
Central Region	5,400	7	20,000	25	55,500	68	81,100	100
Eastern Region	2,700	2	34,900	23	110,600	75	148,200	100
Volta Region	10,100	9	64,600	60	33,900	31	108,600	100
Ashanti Region	8,500	6	27,500	19	111,700	75	147,700	100
Brong-Ahafo Region	3,800	5	30,700	43	37,400	52	71,600	100
Northern Region	13,700	22	46,800	77	700	1	61,200	100
Upper Region	63,800	54	48,800	41	6,100	5	118,700	100
Total Ghana	111,100	14	289,700	36	404,400	50	805,200	100

Source: Ministry of Agriculture: Report on Ghana Sample Census of Agriculture 1970, Vol.1 Table VII.14, Accra, 1972.

On the question of the prevelance of subsistence farming in Ghana the following facts are brought out quite clearly by the report on the sample census of the country's agriculture conducted in 1970 by the Ministry of Agriculture.[2] First, about one-fifth of the holders who produce purely or mainly for subsistence had other occupation. This testified to the fact that not all those who engage in subsistence activities live entirely outside the exchange sector. It also illustrates the fairly common practice of people in gainful employment taking to subsistence farming in order to supplement their money incomes. Second, of the holdings used for subsistence production some of the output from 72 per cent of them (i.e. 36 per cent of total holdings) was intentionally cultivated for the market. Though, the proportion of the total

2. Ministry of Agriculture, Report on Ghana Sample Census of Agriculture 1970, Vol.1, Accra, 1972.

so involved was not high, it nevertheless shows that agricultural activities can be undertaken partly for subsistence and partly for sale.[3] The small fraction meant for the market represented the early stages of the development of the exchange sector. As shown in Table 8.1 production from 50 per cent of the holdings was mainly, but not solely, for sale, an implication that some of the produce was used for subsistence. The overall picture given by the table is that about 50 per cent of the holdings was used for subsistence production.

Using the data for the holdings devoted to subsistence and commercial purposes as an index of the labour allocation between the two types of activity and relating the result to the proportionate distribution of labour by occupation within the agricultural (crop and livestock rearing) sector, as shown in Table 8.2, we can make some useful deductions about subsistence and non-subsistence production and some types of agricultural activities. If it is assumed on the basis of the data in Table 8.2 that about one-third of those engaged in agriculture are cultivators of cocoa, a crop produced solely for sale, then since about half the people in agriculture practice commercial farming, the logical inference is that, besides cocoa cultivation, just about one-sixth of Ghanaian farmers are engaged in producing other cash crops.[4]

In the main, food production in Ghana is undertaken for subsistence and according to the Ghana 1960 Population Census about 62 per cent of the farmers grew field crops and foodstuffs that year (see Table 8.2). The census data, however, show that in about half the regions of the country

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3. For the Characteristics of subsistence agriculture and stages of transformation, see K.C. Abercrombie, "The Transition from Subsistence to Market Agriculture in Africa South of the Sahara", reprinted in Readings in the Applied Economics of Africa" Vol.1 Cambridge University Press, 1967 P.1 and Colin Clarke and M. Haswell, The Economics of Subsistence Agriculture, Macmillan, London, 1964, Chapter 10. See also Peasant Agriculture Government and Economic Growth in Nigeria by G.K. Helleiner op. cit. Chapter 3.

4. It is taken for granted here, as in subsequent analysis, that the proportionate distribution of farm operators for the different years cited remains unchanged.

Table 8.2 PERSONS AGED 15 AND OVER ENGAGED IN AGRICULTURE, 1960

Type of Cultivation	Workers by Sex			% of Total excluding agriculture services
	Male	Female	Total	
Field crops and foodstuffs production, including vegetables and flowers and mixed farming	499,095	413,463	912,558	62.1
Oil palm plantation	1,257	1,995	3,252	0.2
Tea and Coffee plantation	14,525	8,641	23,166	1.6
Cocoa growing	372,769	148,873	521,642	35.5
Rubber plantation	742	179	921	-
Tobacco growing	519	102	621	-
Livestock production	5,870	661	6,531	0.4
Total	894,777	573,914	1,468,691	99.8
Agriculture services	30,530	562	31,092	
Grand Total for Agriculture	925,307	574,476	1,499,783	

Note: (i) The aggregate for agriculture together with forestry logging, hunting and fishing is 1,002,300 males and 579,031 females.

(ii) The details do not add up to 100 because of rounding.

Source: Ministry of Information and Broadcasting, 1960 Population Census of Ghana, Vol.IV Economic characteristics of Local Authorities, Region and Total Country, Government Printing Department, Accra, 1964 page 17.

women cultivators outnumbered men. This predominance of women in some of the regions is the outcome of the way subsistence farming is carried out there. In such regions - generally in southern Ghana - the practice is to give the female members of the households, usually wives, the assignment of tending the food farms and subsequently harvesting from them the foodstuffs required by the households.

It can be deduced from the above analysis that with regard to the cultivation of field crops and foodstuffs about one-fourth is produced for the market and the remaining three-quarters or so produced simply for subsistence.

Some output from subsistence farming usually finds its way to the urban centres for two reasons. The first is that in determining the amount of foodstuffs to be grown during the season, rural households, besides their own subsistence requirements, do make provision for the needs of those members who have gone to work in the urban areas.[5] This for example, is a fairly common practice in the Ashanti Region. The second point is that where a surplus above subsistence requirements is intentionally grown, the size of the surplus is set by the growers' need for money to be used in the exchange sector. It is not, as is generally the case, determined by changes in market demand. This implies that the degree of responsiveness of changes in the market supplies of such growers to changes in the prices brought about by changes in market demand is very low and for policy formulation in respect of schemes to promote increases in food supplies this is a point worth noting.[6]

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5. Where the drift to the urban centres for employment does not lead to a diminution of output, it can be taken as an illustration of the model constructed by Sir, Arthur Lewis in his paper "Economic Development with unlimited Supplies of Labour", op. cit.

6. In Ghana's Second Development Plan op. cit. p.4 it is stated that the amount of imported food doubled during the 7 years preceeding the publication of the Report in 1959 as a result of the failure of the country's agricultural sector to cater for the increasing demand for food by the urban population.

The subsistence production in Ghana's agriculture as described above is much smaller than the figure of 65 to 75 per cent - conceived in terms of crop areas - given by a United Nations study as the average for some tropical African countries around 1950.[7] It is also much smaller than the subsistence activities within the agricultural sector of many of the countries shown in Table 8.3, as suggested by the ratio of the value of subsistence to that of total output. Only Uganda with 41 per cent of subsistence production and the former French West Africa with 55 per cent had reached stages of development which were better or nearly comparable to show. When, however, Ghana's agriculture is compared with those of the advanced countries, its subsistence production turns out to be too large. This is best seen in the agricultural productivity of the country which by comparison is too low. According to the Seven Year Development Plan

> "... in Ghana in 1960 every farmer was producing enough food to feed one and half working people. In the United States at that date every farmer was producing enough to feed 12 working people."[8]

(a) If a constraining influence on the rate of growth of the country's economic development is not to be exerted by its agricultural sector through failure to produce not only the needed food supplies but also the requisite raw materials for its industrialisation, then coordinated and consistent efforts have to be made to reduce its subsistence agriculture to negligible proportions.

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7. United Nations, Enlargement of the Exchange Economy in Tropical Africa New Youk, 1954, pp.11-13. The countries or territories included in the study were the former Belgian Congo the former French Equitorial Africa, the former French West Africa, Ghana, Kenya, Nigeria, the former Southern Rhodesia, Tanganyika, and Uganda.

   It is interesting to note that this study put the proportion of crop area devoted to subsistence production at between 20 to 30 per cent. The Ghana 1970 sample Census of Agriculture proves this to be much lower than was or is actually the case.

8. Ghana Government, Seven Year Development Plan, op. cit. pp. 9-10 The farms possessed by an individual holder are not usually coterminous.

Table 8.3 ESTIMATES OF PERCENTAGE OF SUBSISTENCE PRODUCTION IN TOTAL VALUE OF AGRICULTURAL PRODUCTION

Country	Period	Percentage
Cameroun	1956	69[a]
Former French Equitorial Africa	1956	77[b,c]
Former French West Africa	1956	55[b]
Guinea	1956	75[b]
Ethiopia	1954	82[d]
Kenya	1955-59	60[e]
Tanganyika	1956-59	59[e]
Uganda	1954-59	41[b,g]

Note: (a) Excluding livestock
(b) Including forestry and fishing
(c) Traditional enterprises only
(d) Including forestry
(e) Including forestry, fishing and hunting.
(f) Including fishing
(g) African enterprises only.

For the above dissimilarities and also on account of conceptual differences on which the estimates were based, the figures are not to be used for inter-country comparisons. They provide only a rough guide to the extent to which subsistence activities existed in the Agricultural sectors of the various countries.

Source: Edith H. Whethan & Jean I. Curnie, Readings in the Applied Economics of Africa, Vol.1. p.5.

(b) Size of holdings: On the average a Ghanaian farmer has about three farms (parcels of land), and the total, which makes the holding varies very much in size.[9] In 1970 nearly 55 per cent of the holdings in the country about 18 per cent were 10 acres or more in size. A holding comprises all parcels of land over which the holder exercises authority and embraces land currently under cultivation, laying fallow or not yet put to use.

9. Ghana Sample Census of Agriculture 1970, op. cit. p.48

For the country as a whole the median size of a holding in 1970 was found to be 3.6 acres, though there was considerable regional variation, ranging from 5.5 acres for the Western Region to 2.2 acres in the Volta Region.[10] A point worth noting is that in some instances the parcels of land which constitute a holding exist in different districts. Nonetheless, for the whole country the average number of workers per holding was 5.6.

From the standpoint of farm management the size of the individual holding of the different crops grown in the country is of great significance. The last column of Table 8.4 shows figures relating to the mean size (in acres) per holder in respect of most of the listed crops. Apart from cocoa, for which the figure is slightly over 12 acres all the other crops show figures under 6 acres.

The smallness of the sizes of both holdings and farms has constrained the Ghanaian farmer generally to the use of just the hoe and the cutlass (matchet). If the size of holdings can be increased, at least with regard to some of the crops (like rice, maize, and ground-nuts), then mechanised methods of farming can be adopted with consequent improvement in productivity per worker.

The Ghanaian small holder experiences the same difficulties as those encountered by small farmers the world over.[11] One worth mentioning now is difficulty in having access to credit. The financial handicap thus created makes it difficult for him to undertake farm improvement if ever he decides to do so.

(c) <u>The high level of illiteracy among farmers</u>: Small holdings can achieve high productivity by means of methods other than mechanization. These include such practices as the control of pests, plant diseases and weed; the use of fertilizers; crop improvement[12] and indeed all agricultural

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10. Ibid. p. 44

11. See I.B.R.D. World Development Report, 1978, Washington D.C. 1978 pp.42-44

12. B.W. Hodder, Economic Development in the Tropics, Methuen & Co. London, 1968, pp.119-137.

TABLE 8.4

AREA UNDER MAIN CROPS (ACRES)

1970

Crop	Pure	Mixed Predominant	Mixed Subsidiary	Total	Mean Area per Holder
Cocoa	2,207,000	1,271,000	109,000	3,587,000	12.3
Coffee	40,000	16,000	16,000	72,000	
Coconut	45,000	30,000	15,000	90,000	5.3
MAIZE:					
Main Season	146,000	568,000	186,000	900,000	2.2
Second season	132,000	79,000	7,000	218,000	
Guinea Corn	33,000	244,000	323,000	600,000	3.7
Millet	79,000	300,000	236,000	615,000	4.2
Rice	96,000	40,000	-	136,000	2.2
Groundnuts	48,000	129,000	65,000	242,000	2.0
*Cassava	149,000	163,000	493,000	805,000	1.7
Cocoyam	5,000	92,000	791,000	888,000	3.0
Yam	84,000	208,000	134,000	426,000	2.0
≠ Plantain	37,000	150,000	1,234,000	1,421,000	4.3
Oil Palm	36,000	8,000	-	44,000	n.a.

* Main season only.

≠ Includes Bananas.

Source: Ghana Ministry of Agriculture, "Ghana Sample Census of Agriculture 1970," Vol.I, Table XV.35 and Chaps. 9-13.

practices based on labour-intensive, capital-saving techniques which rely very much on technological innovations.[13] But such innovations are likely to be more quickly appreciated and put to use by farmers when their level of literacy is high than when it is low.[14] Unfortunately, literacy is quite low among Ghanaian farmers.[15] The situation as of 1960 is presented in Table 8.5 and is quite serious from the standpoint of economic development, because uneducated farmers tend to cling to traditional farming practices and are too reluctant to accept new ideas.

Taken as a group, 91.5 per cent of Ghanaian farmers in 1960 had never been to school and of the foodstuff growers the level of illiteracy was 94.6 per cent, a figure which was higher than that for the entire group. Education appeared to be most widespread, comparatively, among the livestock and poultry farmers whose figure for illiteracy was 82.8 per cent. Had a separate figure been given for poultry farmers alone, it would have turned out to be quite small as successful poultry farming in Ghana happens to be carried out usually by educated people.

Agriculture is regarded by many in Ghana to be an occupation for the illiterate[16] and the content of the state provided general education reinforces this impression. The curriculum is the same for pupils in the urban as well as in the rural areas and indeed it is designed mainly for the benefit of the farmer. Most of the rural youngsters after completing their primary

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13. These are embraced by the measures which B.F. Johnson & J.W. Mellor regard as consulting Phase II of agricultural development. See their article entitled "The Role of Agriculture in Economic Development" in American Economic Review, Vol.1, 1961,. pp. 566-593.

14. See Theodore W. Schultz, Transforming Traditional Agriculture, Yale University Press, New York, 1964, Chapter 11, "Farmers as Demanders of new factors".

(a) 15. In Table 8.5 a person who did not attend school is taken to be illiterate, though it is realised that there are some who can teach themselves to read and write. (b) For purposes of comparison the percentage of people who did not attend school among other common occupations (as shown by the 1960 census are as follows: fishermen 92.0 per cent; loggers 80.8 %; blacksmiths, hammersmith etc. 73.1% and weavers 72.9%) See - Ghana 1960 Population Census, Vol.IV. op. cit. Table 8

16. See J.C. Caldwell, African Rural-Urban Migration: the Movement to Ghana's Towns, C. Hurst & Co. London, 1969 p.60

Table 8.5 INDICATION OF LEVEL OF ILLITERACY AMONG DIFFERENT CLASSES OF GHANAIAN FARMERS AND RELATED WORKERS - 15 YEARS & OVER

1960

	Group Total	Number without formal schooling	Number not educated formally as % of Total
Total of Farmers and Related Farm Workers	1,486,891	1,358,177	91.3
Farmers & Farm Managers (Foodstuffs)	848,229	802,682	94.6
Farmers & Farm Managers (Cocoa)	457,156	349,821	86.4
Farmers & Farm Managers (other crops, n.e.s.)	63,639	55,862	87.8
Farmers & Farm Managers (Livestock & Poultry)	6,126	5,073	82.8
Flower Growers	51	10	19.6
Agricultural Labourers	110,242	99,141	98.9
Other Farm Workers (n.e.s)	1,448	588	40.6

Source: Ghana Government 1960 Population Census of Ghana, Vol. IV Table 8, p.94

and middle education drift to the towns in search of clerical jobs.[17] Only the uneducated ones are left to join the older generation of farmers, mostly illiterates, whose average age increases yearly. It can thus be said that the Government controlled educational system ~~for~~ by failing to provide the appropriate education for the rural people has contributed much to the phenomenon of the rural-urban drift as well as to the persistence of high levels of illiteracy among the farmers.[18]

17. ibid. pp. 60-69

18. T.W. Schultz op.cit. Chapter 12 "Investment in Farm People."

(d) <u>Dominance of cocoa production</u>: Ghanaian agriculture is dominated by the production of one crop, cocoa. This fact is clearly depicted by the figures in Tables 8.2 and 8.4. It can be seen from Table 8.2 that in 1960 just about one-third of the people aged 15 and over engaged in agriculture were cocoa growers and Table 8.4 indicates that far more land - over $3\frac{1}{2}$ million acres - was devoted to its cultivation than any other crop in 1970.

In spite of Governor Guggisberg's warning in 1919 that,

> "We have all our eggs in one basket. The cocoa baskets are full - what about the other baskets if anything goes wrong with the cocoa crop or the cocoa market ?" 19

no bold, consistent and realistic agricultural programme for diversification has been put forward. In the colonial days the Government's actions in promoting development were confined to the sphere of production, whilst the procurement of what was produced was left to the trading intermediaries in the private sector, who were all expatriate. The objectives of the two differed. Whereas the former's interest was in increasing the range of crops domestically grown for export in order to secure greater stability in the country's earnings of foreign exchange, the latter were mostly concerned with profit considerations and, for that matter, with dealings in the crop or crops in whose production their head-offices abroad considered the country internationally to have a comparative advantage. Since the beginning of this century their purchasing operations tended to be structured more for trade in cocoa than for any other crop. The conditions created difficulties for either the introduction of new crops into the country or the revival of old ones, as was the case with coffee after 1923.[20]

On the attainment of political independence in 1957 the nationalist government had a unique opportunity to adopt measures to secure the diversification of the agricultural sector by co-ordinating the new crops

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19. Governor's Annual Address, <u>Legislative Council Debates</u>, 1919.

20. See - K. Dickson, "A Historical Geography of Ghana", op.cit. p.158-159

promotional activities of the Ministry of Agriculture with the operation of the marketing board system introduced into the country during the Second World War. The latter with its purchasing facilities and set prices would have provided the necessary inducement to the farmers to produce. Unfortunately, no constructive policies for achieving diversification were adopted by the Government and the dominance of cocoa cultivation continued to persist.

(e) The practice of inter-cropping: Another feature of the country's agriculture is the practice of inter-cropping in which one crop, for example ground-nuts, is planted in between rows of another crop, say, maize. The extent to which this method is practised in the country with respect to the cultivation of the major crops is shown by the figures in Table 8.4. The practice is intended to prevent the rapid depletion of the fertility of the soil which result from devoting a piece of land to the cultivation of a single crop year after year and without the use of either manure or fertilizers.[21] However, one disadvantage of inter-cropping is that it does not permit the adoption of farming techniques that have been evolved to meet the special requirements of particular crops and cannot be usefully applied to a variety of plants that are inter-cropped.

(f) Low intensity of farming: Over the whole country the amount of capital invested in a unit of cultivated area is low. It was estimated during the 60's that besides cocoa production the amount of capital invested in agriculture was about £G16 million (¢32 million). Of this the amount invested in implements and tools was only £G2.6 million (¢5.2 million); the rest represented investment in livestock.[22] The tools owned by farmers may include all or some of the following: hoes, matchets, chisels and axes.

21. B.W. Hodder, op. cit. p.132

22. UNDP/FAO, Land and Water Survey in the Upper and Northern-Ghana Final Report Vol.VI. Economic Considerations, Rome, 1967, p.9

In 1972 according to one estimate the value of tools owned by individual farmers ranged on average from ¢3.9 in the Upper Region to ¢11.9 in the Western Region, with ¢7.2 as the average for the whole country.[23]

In the south only the simple hand tools mentioned above are used in farming operations, but in the savanna areas of the north more intensive cultivation is found. On the large scale farms tractors and other modern farm machinery are used and the small farms animal power is used on a limited scale for ploughing.

Throughout the country the amount of fertilizers and pesticides used is quite low. According to the external trade statistics the amount of fertilizers imported into the country from 1968 to 1972 ranged between 5,200 tons and 6,900 tons per annum.

(g) Low productivity: Several of the features mentioned above together with such factors as the practice of shifting cultivation, the land tenure systems in vogue[24] and inadequate transportation facilities for the rural areas have resulted in the sector's acquisition of another characteristic, namely, low productivity per acre and per man. The figures in Table 8.6 point the country's yield per acre in respect of some selected crops in comparison with African and World performance. Notwithstanding the contribution of soil and other geographical factors in bringing about these differences, the effects of economic and social practices are of considerable significance in producing the results. As the figures portray, Ghana's performance on the whole bore close comparison with that of Africa, but was

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23. Ministry of Agriculture, Division of Economics and Marketing, Annual Progress Report, Accra, 1972

24. R.J.H. Pogucki, "The Main Principles of Rural Land Tenure" in Brain Wills (ed), Agriculture and Land Use in Ghana, O.U.P. London, 1962 pp.179-191 and Lily De Graft Johnson, "Development of Land Tenure Systems in Ghana" in Ghanaian Bulletin of Agricultural Economics, Vol.2 No.1, 1962, pp. 16-20

very much below that of the world. It is worth observing, however, that in the case of groundnuts and millet Ghana's yield per acre was higher than that of either Africa or the World.

Table 8.6 COMPARISON OF YIELDS PER ACRE IN GHANA, AFRICA AND THE WORLD

Crop	Ghana	Africa	World
Maize	806	838	1,521
Millet	600	570	580
Rice	905	1,063	1,527
Groundnuts	419	255	381
Yams	6,700	6,300	7,800

Notes: Ghana's figures refer to 1963 whilst those for Africa and the World relate variously to 1949-50, 1954 and 1956.

Source: Tony Killick, "Agriculture and Forestry" Table 9.9 in W. Birmingham et d (ed): A Study of Contemporary Ghana Vol.1, op. cit.

Productivity can be improved if subsistence farming which is a non-specialised activity involving the production of wide variety of crops is gradually replaced by a commercial agriculture which is characterised by greater specialisation in crop production. Emerging urban centres with increasing effective demand for foodstuffs make it possible to embark upon production of food for the market. When this threshold has been reached in agricultural development the extent to which the farmer is able or willing to increase his output will depend, firstly, on the support of transport services he will get for conveying his produce to the market and, secondly, on the amount of extension services the Ministry of Agriculture will provide as well as on how dedicated and sympathetic the extension officers will be in carrying out their duties among farmers of whom most are illiterate.

With regard to information to be disseminated among farmers some amount of research findings has of late been accumulated in Ghana.[25]

The possibility of achieving high productivity on small-scale farms is well illustrated by the experience of Japan. In that country high yields per acre have been obtained through the use of "techincal inputs" that appropriately serve the needs of the small scale farms - animal-drawn equipment, pedal operated rotary threshers, high quality seeds, effective irrigation system, sprayers for pest control, ample use of chemical fertilizers etc.[26] With necessary modifications these and similar technical inputs can be borrowed from abroad and applied, but the success of the process will depend not only on the efforts of the research workers and the extension officers but much more on the resourcefulness, flexibility and adaptiveness of the small-scale farmers.

The two other factors which militate against high productivity are the practice of shifting cultivation and the current land tenure systems. The former can, however, be put to an end by the use of fertilizers and the adverse effects of the latter are most likely to be eradicated by the adoption of measures that will ensure guaranteed tenancy and the right of extended possession, if not of private ownership.[27] Under such conditions increases in productivity will be secured when farmers acquire the proclivity to engage in land improvement rather than in mining it.

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25. See - M.K. Agblo, "The Application of Technology in the Development of Agriculture, with special reference to Ghana" in Development and Dissemination of Appropriate Technologies in Rural areas, pub. by German Foundation for Developing countries - Seminar Centre for Economic and Social Development, Berlin, 1972 pp.101-114.

26. B.F. Johnston, "Agriculture and Economic Development in Ghana: The Relevance of Japan's Experience" in the Economic Bulletin of Ghana, Vol. XI, No.4 1967, pp. 34-40

27. See - UN-FAO, "African Agricultural Development - Reflections on the major Lines of Advance and the Barriers to Progress" New York, 1966, Chapters 20-21.

(iii) Colonial Agricultural Legacy: (a) Pre-World War Two performance. By the time internal self-government was attained in 1951 the record of the colonial government with respect to agriculture was not an enviable one. As stated in chapter 1, before it annexed the country, the British Government pursued a tariff policy which discriminated against imports from Ghana as compared with the same type of imports from the West Indies. Again, when the cocoa industry was getting established in the country at the beginning of this century - mainly on the efforts of the indigenous farmers - the Department of Agriculture, instead of giving the industry the necessary assistance, chose to conduct a sustained campaign aimed at dissuading the farmers from expanding production.[28]

The point was also made in Chapter 1 that soon after the annexation of the country the area in which British capital showed considerable interest was mining. What little attempt was made to establish ventures in the agricultural sector foundered on land tenure problems prompted by the fears of the indigenous people that their land might be alienated to foreign businessmen. Foreign owned enterprises in the agricultural sector would have engaged in the cultivation of produce for export, and when they did not materialise, agriculture in Ghana continued to remain in the hands of the Ghanaian farmer.

The Colonial government's involvement in agriculture before the Second World War can be described as nothing but token. Though in the 1920s it made some efforts to get the palm-oil industry resuscitated, sisal cultivation introduced into the country and the production of coconuts

28. For a detailed account see R. H. Green and S.H. Hymer, "Cocoa in the Gold Coast: a study in the relations between African farmers and agricultural experts" in Journal of Economic History, XXVI, No.3, September, 1966

and a few other crops undertaken on sizeable scale for the export trade,[29] such efforts were, however, minimal, because under the 1920-27 Development Plan out of a total expenditure of nearly £12½ million only £151,000 (about 1.2 per cent of the total) was spent on agriculture, forestry and fishing. Furthermore, the agricultural research stations established in the country were few and small in size and most of them wrongly located in the sense that the research work assigned to them could not be usefully applied to the agriculture carried on in the districts in which they were situated. Besides rice and one or two other crops the government exhibited no interest in the crops produced solely for domestic consumption. These issues were commented upon in the reports of some individuals and commissions,[30] but perhaps the most forthright observations were those of the Watson Commission and because they provide a succinct statement on the colonial government's agricultural record before the granting of internal self-rule an extensive excerpt from them is given below:

> "324 .... We did not receive any serious complaints about the efficiency or quality of the staff; the main source of trouble was rather the limited scope of its activities. This is no reflection on the staff but rather on the Administration's agricultural policy. Agriculture appears to have been the Cinderella Department - before as well as since the war. The Gold Coast has never been provided with machinery in the form of staff, buildings, and experimental stations to provide for the basic needs of its agriculture."
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> "325 .... Ample evidence is available to confirm this view: firstly, in the small annual expenditure, over a period of many years, on agriculture relative to the revenue of the country and to the value of the agricultural exports; secondly, in the almost complete disregard of agriculture in the more advanced stages of education and in the award of scholarships for study abroad; and thirdly in the lack of interest in technical problems shown by many members of the Administration.
>
> "326... This neglect is eloquently reflected in the following

29. See for example, Governor's Annual Address, Legislative Council Debates, 1923-24 pp.36-39 and the Governor's Despatch to the Secretary of State, September 1929 in Sessional Paper No.III, 1930-31, No.665

30. The following two reports contain critical comments on the Colonial Government's work in agriculture: Report by the Hon.W.G.A. Ormsby-Gore on his visit to West Africa during the year 1926. Cmd.2744, London, 1926, pp.139-53 and Technical Reports by the West African Commission, 1938-39, pub. by Leverhulme Trust, London, 1943, Para. 184-191.

paragraph taken from the report of the Director of Agriculture for the year 1945-46:

'The Department's sole laboratory accommodation was handed over to the West African Cocoa Research Institute in 1944; since then no laboratory facilities have been available save in the citrus research building at Asuansi. Over the same period the Department has had the services of only one entomologist and one chemist. There has also been shortage of locally trained African staff ...." 31

(b) Post-war innovations: Agricultural Development Croporation: Shortly after the publication of the Watson Report the Colonial Administration established the Gold Coast Agricultural Development Corporation (ADC) in June 1949 and empowered it to undertake, through the adoption of large scale production methods, all forms of agriculture. The Administration's move signalled a departure from its traditional policy of leaving agricultural ventures entirely to private capital and the method of farming proposed reflected its reaction to the peasants' traditional farming on small scale.

The most important project undertaken by the ADC was the Gonja settlement and development scheme in the savanna region of northern Ghana and for this subsidiary, the Gonja Development Company, was formed in 1950.[32] A 50 square miles of sparsely populated land was initially planned to use) about 250,000 acres of it for large scale mechanised farming.[33] The crops to be cultivated included groundnuts, rice, maize, millet, guinea corn, tobacco and soya-beans. Families were to be settled in the area first to come in as labourers and later, if found suitable, to be raised to the status of tenant farmers.

31. Report of the Commission of Enquiry into Disturbances in the Gold Coast, 1948, pub. by H.M.S.O. for Colonial Office, London, 1948 popularly and hereinafter referred to as the Watson Report.

32. S.T. Quansah, "The Gonja Settlement and Development Scheme - Ghana in the Economic Bulletin of Ghana, Vol. No.1 1972 (Second series) pp.14-24

33. The scheme appear to have been modelled on the East African Groundnut Scheme which was undertaken by the British Overseas Food Corporation and in which heavy machinery was used for large scale farming. This scheme too became a colossal failure. For an account of it see - A. Wood, The Groundnut Affair, London, 1950 and S.H. Frankel, in the "Kongwa Experiment: Lessons of the East African Groundnut Scheme" in the Economic Impact on Under-developed Societies, Blackwell, Oxford, 1959 pp.141-153, and K.D.S. Baldwin, The Niger Agricultural Project, Oxford, 1957.

The Gonja project eventually became a costly failure. Only 4,000 acres could be cleared and used by 1953 and even this had to be subsequently reduced to less than half that size.[34] The Gonja Development Company was liquidated in 1957 and with that the scheme came to an end. The Gonja project was on the whole a failure, but some aspects of its operation have since continued to influence the nature of state agricultural projects in the country.

From the standpoint of economic development and planning the following factors which contributed to the failure of the project are worth noting. First, because the project was located in a sparsely populated undeveloped area considerable amount of money had to be spent on access roads, housing accommodation for the staff, offices, a hospital etc. Those infrastructural facilities absorbed far more than was necessary of the voted capital for the project. Second, the project was overstaffed with senior officers, of which all were expatriate.[35] Because there were no Ghanaian counterparts to be used for subsequent replacement or some of the expatriate who left after a short period of service, the efficiency of the organisation was badly affected. Third, with regard to the food production aspect of the scheme, technical difficulties were encountered with practically every variety of crop that was grown and surprisingly "regular application of farm manure and fertilizers was neither planned nor adopted".[36] The result was a rapid decline in yield per acre of almost all the crops cultivated.[37] Fourth, the cost of the difficulties encountered in cultivating the varieties of crops as mentioned above was augmented by the large scale of the farming

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34. Gold Coast Agricultural Development Corporation Limited Annual Report and Accounts for the year 1956, Government Printing Office, Accra, (1957) passim.

35. See - ADC Report, 1951, pp.3-8, for departures of expatriate staff in the first year.

36. See - S.T. Quansah, op. cit. p.16

37. Resettlement of farmers from overcrowded areas which was the third objective of the scheme was a failure because only 15 families settled before 1957.

operations and, fifth, the use of wage labour for ordinary farm operations and the payment of wage rates which were more related to those prevailing in the non-agricultural sector than to the productivity of the farm labourers.

The last two points raised above constitute part of the agricultural legacy which the colonial government bequeathed to the government of independent Ghana. State farming operations have since the colonial days always used hired scale. Concerning the latter, however, this was the view expressed by the director of the Gold Coast Agricultural and Fisheries Development Corporation in the early 1950s.

> "... the Corporation must so design its schemes that the experience which it acquires can be copied and made use of by the country at large. The country concerned is not one of large plantations and freehold proprietorship. The conditions are rather those of small-holdings, with communal ownership, and if the Corporation does not adapt its schemes to those conditions, it will have largely failed, however successful it may be from the purely agricultural point of view."[38]

(c) Postwar innovations: Extension services

An important part of the agricultural legacy left by the colonial government was the institution of extension services. As currently set up, the extension services had their beginnings in the 50s and were the response of the colonial government to one of the complaints made in 1948 to the Watson Commission by Ghanaians against the Department of Agriculture and the agricultural policy of the Colonial Administration, namely, that there was no close contact between the farmer and the Department of Agriculture.[39] By the time political independence was granted a foundation

38. Gold Coast Agricultural and Fisheries Development Corporation 3rd Annual Report and Accounts, (for the period 1st January 1952-31st March, 1953), Accra. p.4

39. Principal among the other complaints made to the Watson Commission about the country's agricultural development were (a) excessive attention of the colonial government to the problems of export crops relative to those for domestic consumption; (b) absence of alternative crops to cocoa (i.e. lack of diversification;) (c) Peripheral significance attached to agricultural education and lack of strong support for agricultural experimentation and demonstration and (d) no plans for future development of the country's agriculture.

had been laid on which future developments would be built. One of the most difficult problems encountered was recruiting enough people of the technical grades to fill the requisite number of posts. Towards the close of the 50s, for example, of at least 1,500 agricultural assistants required, less than 300 were available.[40]

(iv) Agricultural developments in independent Ghana

(a) Introduction: The agricultural programme which the Government of Ghana set out for the country soon after the attainment of independence was outlined in the Second Development Plan. Turning agriculture into "a highly efficient and productive occupation" was stated to be more important than anything else and further it was expressed that the industry should be seen as one in which "a wide range of skills and scientific knowledge" could be applied in order to increase productivity per acre.[41]

The specific objectives of the Government under the Plan were stated to embrace the following:- (a) securing an increase in the output of the cocoa industry; (b) bringing into cultivation large acreages of rubber and bananas in the south-western part of the country; (c) laying the foundation of a cattle industry in the country; (d) raising the yields of cereals in the north; (e) conducting a study of the use of fertilisers with a view to introducing its widespread application and (f) irrigating the Volta plains.[42]

(b) Production through the Agricultural Development Corporation: The Government's supporting services to the sector were provided through the Ministry of Agriculture, but in addition its newly assumed task of demonstrating new methods of production and actively participating in the

40. See - Ghana Government, Second Development Plan, op.cit. p.11

41. Ibid. p.4

42. Ibid.

cultivation of some export crops was assigned to the Agricultural Development Corporation. Accordingly, the Corporation was to establish under the Second Development Plan a number of demonstrational farms of 50 to 100 acres in various parts of the country in order to show the small Ghanaian farmer the benefits to be derived from adopting new farming techniques.

To assist in the expansion of food production the Corporation was charged with the building of a chain of processing and storage facilities throughout the country. It was however hoped that the scheme would benefit most cereal production and the cattle industry.

Expansion in the production of rubber and bananas was to be undertaken primarily for the export trade. To this end high yielding varieties of rubber seeds were to be imported for distribution to farmers and the country's quantum of banana exports was to be increased over 55 times, from 70,000 bunches to 4 million bunches a year.[43] The Government's intention was that the creation of the rubber and banana industries should be accomplished mainly by Ghanaian farmers, but the ADC was, however, permitted to farm joint ventures with private entrepreneurs to set up estates for the production of the two crops.

Before the launching of the Second Development Plan the Agricultural Development Corporation had purchased a 1,900 acre rubber plantation from a private owner and had in 1957 in cooperation with a private expatriate firm embarked upon the establishment of a 5,000 acre rubber estate. These together with two other estates the Corporation had also acquired were expanded under the Plan.[44]

Concerning large-scale farming the Agricultural Development Corporation's most outstanding endeavour, besides rubber cultivation, was the establishment of a 250 acre banana plantation not very far from the

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43. Ibid pp. 5-6

44. Development Service Institute of the National Investment Bank, Domestic Rubber Production, Accra, 1965

port of Takoradi when it realised that its efforts to encourage indigenous farmers to take up the cultivation of the crop on a greater scale had not been distinctly successful. The Corporation also became engaged in oil palm cultivation but this resulted from the purchase of two plantations totalling over 3,000 acres from enterprises in the private sector.

From the standpoint of agri-business the Agricultural Development Corporation was a failure. Its deficits tended to become an annual feature[45] and the underlying factors were varied. Foremost among them, as mentioned already, was the fact that it made use solely of hired labour who were paid relatively high rates which tended to be in line with those obtaining in the non-agricultural sector rather than with their productivity. Furthermore, skilled personnel to provide the necessary technical guidance to farm workers were in short supply, as it was in the case of the Gonja project. Again, the crops it was expected to grow on large scale were those for which no pilot projects on the scale contemplated had been established in different parts of the country, and on the basis of which cost-benefit analysis could be employed to determine profitability or otherwise of each project before actually embarking upon it. Managerial problems constituted another factor which generated high costs. The Corporation was entrusted with other assignments besides production and this made its centralised administration unwieldy for efficient operation.[46]

The Agricultural Development Corporation, for the above and other reasons was liquidated in 1962.

(c) Mechanized farming continued through the State Farms Corporation: The Ghana Government's resolve to make large scale farming a feature of the country's agriculture had two objectives and these are contained in a

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45. See - the Accounts contained in the various Agricultural Development Corporation Annual Reports, but especially that of 1958

46. See - S.H. Frankel, op.cit. p.149. The Agricultural Development Corporation was given the assignment of marketing produce for the small farmer besides the others set out in the Second Development Plan. Chapter 2.

statement made in July 1958 by Dr. Kwame Nkrumah as Prime Minister and quoted in the Second Development Plan:

> "The Government have had no difficulty in concluding that our main task must be to improve the practices of the small farmer in Ghana. Nevertheless, although our emphasis is on helping the small Ghanaian farmer, we have also had no difficulty in concluding that it would be helpful to have some sort of large-scale modern agrarian modern projects in the country, partly to demonstrate to the farmers the profitability of new crops and new methods, and partly because this is the quickest way to develop some of the empty spaces in our large and under-populated country. We propose therefore to encourage the establishment of such projects under government auspices geared to the industrial needs of the country." 47

In view of such policy objectives as soon as the Agricultural Development Corporation was liquidated a new organisation, called the State Farms Corporation, was set up in its place. The new corporation took 42 farms previously belonging to the Agricultural Development Corporation, the defunct Department of Agriculture and a private firm. They comprised demonstration and experimental stations and tree crop plantations.[48]

By early 1966 the State Farms Corporation had increased the number of its farm projects to 105 and had in its employment 22,000 permanent workers. Of the total acreage then planted, tree crops, namely, rubber, oil palm, coconut palm, kola and citrus covered 34,490 acres; food crops comprising maize, rice, cassava, potato, guinea corn, groundnut and cow-peas, accounted for 21,500 acres and the following group of crops - plantain, banana and pineapple - occupied 810 acres. In addition 2,200 acres were under the cultivation of such industrial crops as cotton, tobacco and urena lobata.[49]

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47. See - Ghana Government, Second Development Plan, op.cit. p.6 The Statement was originally made to the National Assembly on July 16,1958

48. Ghana Information Services Department, Ghana '76, an Official Handbook, Accra, 1976, p.173

49. Ibid.

The activities of the State Farms Corporation soon after its formation were directed to the expansion of the production of a wide variety of crops as well as the rearing of livestock. In addition to rubber it engaged in the cultivation of sugarcane, oil palm, citrus and cereals (especially in maize). Machinery was extensively used on the farms which employed in each case between 100 and 500 workers.

The expansion programme was rapid in the early years, in spite of inadequate managerial and technical personnel. Because of the difficulties encountered no efforts were made to publicise the advantages of large scale farming to the small farmer.[50]

The relative importance of large scale farming in the country's agriculture could not be assessed before measures were taken to correct the deficiency in the sector's statistical information in the '60s. In 1963 and 1964 the results of the phases 1 and 2 of the Agricultural Census were published. It then became known that of about 2.9 million acres of land under cultivation (excluding cocoa and palm oil) the State Farms Corporation accounted for 50,303 acres, which was equivalent to 1.7 per cent of the total cultivated area. When all the large scale farms then operated by the cooperative societies and other institutions in the country (e.g. State Farms Corporation, Workers' Brigade,[51] Volta Resettlement Programme, Ghana Academy of Sciences, etc.) were taken together the figure came to about 98,000 acres, which was equal to 3.4 per cent of the total.[52]

Though it is not easy to acquire data on the performance of the State Farms Corporation, it is generally believed that it did much better with the establishment of tree crop estates than with arable crop farms.

50. Author's interview with some officials of the Ministry of Agriculture, 1975.

51. The Workers' Brigade was a politically oriented youth organisation formed in 1961 to provide training and employment for the unemployed. Most of them were engaged in large scale farming, but on the whole the Brigade's agricultural performance was alleged to be very poor and its existence was questioned in some quarters. It was disbanded shortly after the 1966 coup.

52. Ministry of Agriculture, Division of Economics and Statistics, Statistics of Large Scale Specialised Institutional and Cooperative Farming, 1964. Agricultural Census, Phase II, Vol.1 p.32 ff.

With respect to the latter it is generally considered that productivity per worker as well as per acre has been lower on the State Farms than it has been in the traditional sector. Concerning the end results of the Corporation during the period under study and even much later, we can do no better than to quote an observation from an official source:-

> "Annual turnovers continue to be on the low side because most of its crops are still in the gestation period and weather and other natural conditions continue to play havoc on its operations." 53

Indeed, it can be argued that the elements of nature affected the agricultural activities of the Corporation no more or no less severly during the period than they affected those of other farm operators. The reasons for the Corporation's less impressive performance are to be found elsewhere, and the following are among those which are generally advanced. First, farm mechanization proved to be a tardy and costly process[54] and the tractors and other farm machinery, which had all to be imported, were found to be inadequate, especially, during the '60s when foreign exchange could not be easily obtained for the importation of additional machines. Second, the problem of insufficiency of farm machinery became aggravated when some of the farm machines in hand broke down and spare parts could not be obtained. Third, the Corporation relied on wage labour. These were mostly unskilled and were partly recruited from the urban centres. Even those farm workers who were acquainted with traditional farming methods happened to be quite unfamiliar with the practices of mechanized agriculture. In the circumstances, no training was given to the unskilled labour employed in order to make them more efficient. Fourth, workers lived in nearby villages and not on the farms and usually travelled to and from work during official hours of work.

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53. Ghana Information Services Department, Ghana '76 op.cit. p.173

54. See - for example, the comments on mechanization in the Ghana Government's One Year Development Plan, July 1970 to June 1971 (1970) p.55

This adversely affected productivity per man.[55] Fifth, the Corporation had in its employment inadequate numbers of people of the technical and managerial grades. The low priority given to the education and training of middle and top level agricultural officers during the colonial days[56] did subsequently have a constraining influence on attempts to accelerate growth after the attainment of political independence. Sixth, for the efficient operation of each farm unit, decisions had to be taken at the farm level. But because the Corporation did not have enough technical personnel in its employ, a lot of decisions had to be taken at the centre. The situation gave rise to many organisational problems and did not make the farms of the Corporation a model for others to copy.

(d) Modernising food production through Cooperatives: In the colonial days cooperative societies existed in the agricultural sector mostly as marketing organisations. Most of them were engaged in the marketing of cocoa, but a few were formed to deal with the collective sale of some non-cocoa crops like coffee, copra and palm kernels. Farmers adopted the traditional methods in the cultivation of these crops but in the '50s the Agricultural Development Corporation and the Department of Agriculture (later the Extension Division of the Ministry of Agriculture) in independent efforts encouraged some farmers to form cooperatives for the production of food crops. A few cooperatives for the production of either maize, rice, or groundnuts became established in several parts of the country, especially in the Volta Region, Northern Ghana and Ashanti.[57]

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55. At a conference held at the University College, Cape Coast in August 1970 on Social and Economic Activities in the Rural Areas several participants in a seminar cited the state farm at Asutsuare in the Volta Region which produced sugarcane as one of the places where this was the vogue.

56. See - the Watson Report, op. cit. paragraph.325

57. See - the yearly reports of the Registrar of Cooperative Societies Accra for the period 1954 to 1959, passim.

As a result of a steady rise in the value of the food component of the country's steadily rising imports bill during the late '50s and the early 60s, (as suggested by the data in Table 8.7) the Government directed the United Ghana Farmers Cooperative Council (UGFCC) in 1961 to step up the domestic production of foodstuffs and raw materials by organising the farmers into producers' cooperatives.[58] With the aim of expanding domestic output as quickly as possible the UGFCC opted for large scale mechanised farming. The Council, started operations with the food producing cooperatives that had been already built up, especially those by the Agricultural Development Corporation and the extension workers of the Ministry of Agriculture, but soon a drive was undertaken to make the programme nationwide. The UGFCC provided tractor service to the cooperative farms either with machinery it possessed or with what it secured from the network of tractor stations set up by the Government throughout the country.

Table 8.7 - GHANA'S IMPORTS OF FOODSTUFFS

		1955	1956	1957	1958	1959
Total food imports, 1958 = 100		88	90	110	100	138
Rice	tons	4,368	8,760	18,264	13,964	33,390
Wheat Flour	"	33,456	34,728	49,836	44,088	58,484
Margarine	"	808	539	1,019	878	1,280
Sugar	"	28,296	31,135	35, 357	35,764	44,863

Source: Ghana Government, Economic Survey, 1959, Accra Table 59

58. For example, the annual value of the imports of food into Ghana rose from £G19.1 million 1959 to £G26.2 million in 1961.

The producer societies were provided with extension services by officers formerly attached to the Ministry of Agriculture but not much effective assistance could be given by these officers, partly because not enough of them were available and partly on account of the low morale of the officers, brought about by the frequent changes in administrative set up of the Ministry of Agriculture which often involved the Extension Division.[59]

Productivity per acre was very low as compared with output obtainable at some experimental stations and the following are some of the reasons. First, most of the "farm leaders" were not sufficiently conversant with modern farming practices and for that reason could often not give the right guidance to the cooperators. They also, in general, lacked managerial skills. Second, mechanization appeared to be the outstanding innovation. The fertilizers required in order to obtain the required levels of output were not adequately supplied because scarcity of foreign exchange did not permit the importation of sufficient quantities. Third, the UGFCC was dominated, if not controlled, by the political party then in power and it influenced the distribution of the earnings of the primary societies. Because they were not fully satisfied with the share of their sales accruing to them, many cooperators by unstinted efforts on ther private farms turned out to be far more productive there than they were on the communal cooperative farms.

Phase 2 of the Agricultural Census conducted in 1964 provide ample statistics on the activities of the producer cooperatives. It showed that by December 1964 there were in the country, 1,454 primary producer societies with a registered membership of slightly over 26,000. Together they had acquired 486,335 acres of which only 23,769 acres had been planted.

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59. This was the census of a Workshop Committee at the Sixth Agricultural Workshop held at the University of Science and Technology, Kumasi in April, 1976.

A point of great significance is that the area planted was equivalent to only 0.8 per cent, of the land in the country under cultivation of various crops, excluding cocoa and oil-palm. Two-thirds of the area planted was sown with arable crops (mostly rice and maize) and one-third was under tree crops of which rubber formed about 90 per cent.[60]

(v) Large-scale farming programme - their results and lessons: The development strategy adopted by the Government for the agricultural sector during the first half of the '60s was one which placed heavy emphasis on large scale mechanised farming. Over ₵25 million worth of tractors and other farm machinery were imported over the years, but the mechanization programme proved extremely costly as the amount of land cleared and planted turned out to be quite small.[61] Land-clearing operations were often retarded by broken down tractors for which spare parts could not be obtained. The problem of servicing the tractors was exacerbated by the great variety of makes that were imported. For example, the Mechanization and Transport Division of the Ministry of Agriculture was found to have had in its possession, 38 different brands of them,[62] possible the outcome of suppliers credits.

Some policy orientation towards farm mechanization occured in early 1970 and it was occasioned not by the Government's reaction to the criticism that it had introduced into agriculture a capital-intensive technology that did not accord with the need to create rural employment, but rather by its recognition of the fact that the programme had served

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60. Ministry of Agriculture, Division of Economics and Statistics. Agricultural Census Phase II, Vol.1, Accra, op.cit. p.32 ff.

61. Ghana Government, One-Year Development Plan, July 1970 to June 1971, Accra, Tema, 1970 p.55

62. Moses Danquah, Ghana Economic Review, 1972-73, Accra, p.47

"to acquaint farmers with the potential benefits of mechanization" and that a significant demand had already been expressed for the private ownership of farm equipment.[63] A decision was thus taken to transfer largely to the private sector, responsibility for farm mechanization services.

By means of the State Farms Corporation the Government of Dr. Kwame Nkrumah wanted to introduce into agriculture not only large scale farming operations but also state ownership and control, along the Eastern Socialist lines. The Corporation had to cope with the cultivation of a wide variety of crops and this, added to managerial problems, resulted in far from satisfactory performance. After the overthrow of Dr. Nkrumah's government the new administration examined the role and record of the State Farms Corporation and in 1968 effected some changes with regard to organisation and policy.

The Corporation then had 10 service centres and 69 farms. Of the latter 7 were to be abandoned and 27 were to be distributed among Ghana Rubber Estates Limited, the then Cocoa Division and the Settlement Division of the Ministry of Agriculture, and the then Ghana Pioneer Farms Limited. Of the remaining 35 only those that were currently viable or were likely to become so were to be retained.[64] Again the State Farms Corporation was to be financially self-supporting and thus cease to rely on the Government for budget subventions to cover its current expenditures.[65]

The experience gained by some producer cooperatives demonstrated that unless large-scale farming was supported by storage and marketing facilities not much benefit would be derived by the farmers from increases in output. The poor storage facilities of the cooperative societies

63. See - One-Year Development Plan, op.cit. p.55

64. Ghana Government, Two-Year Development Plan, from Stabilisation to Development. Mid. 1968 to Mid.1970, Accra-Tema, 1968, p.29

65. Compare this to the policy statement on page 19 of the Seven-Year Development Plan's Annual Plan for the Second Plan Year, 1965 in which it was stated that the Ministry of Finance would provide cover for the operating losses of the State Farms Corporation during the period of establishment of its farms. In fact before 1966 reliance of the Government for budgetary subvention became a characteristic of the Corporation.

resulted in the destruction of much of their harvested produce. It is estimated that in Ghana about 20 per cent of the maize produced each year is lost to pests and something akin might be true of the other crops. It is indeed pointless to expand crop production if the increase in output will be lost through poor storage. Another factor which militated against efforts to increase the output of foodstuffs was marketing; The prevailing distributive set-up for the sale of farm produce was such that it tended to lower prices to the producers and raise them to the consumers leaving the middlemen with very high profit margins.[66]

When in retrospect large scale mechanized farming in Ghana is considered as a whole, it becomes clearly evident that before the ouster of Dr. Nkrumah in 1966, mechanized farming, in spite of the vigour with which it was pursued, failed either to transform the techniques of farming used by the average farmer or to cause such marked increases in the output of some non-cocoa crops as to make the country's agriculture acquire a diversified characteristic. As stated above, less than 4 per cent of the land under crops, other than cocoa and oil-palm, was cultivated by using large scale capital intensive methods. The rest, i.e. over 95 per cent, was tilled by the small farmers who used simple tools and traditional methods. And despite the fact that the latter were producing the bulk of the country's foodstuffs and raw materials, the Government neglected them by failing to provide them with the necessary extension services.[67] Production in agriculture continued to remain low and notwithstanding the mechanization innovations, agriculture on the whole remained stagnant.

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66. The importance of marketing was recognised in the <u>One-Year Development Plan</u>, July 1970 to June 1971, op.cit. See for example the Statement on page 58.

67. In the early '60s the Extension Division of the Ministry of Agriculture was dissolved and its personnel turned over to the State Farms Corporation and the UGFCC.

In the circumstances, the increasing demands of the growing population for food contributed much to the sharp increases in the prices of locally produced foodstuffs sold in the urban areas as shown by the following index numbers: March 1963 = 100, 1964 = 120.1, 1965 = 166.9, 1966 = 183.2[68] The inadequacy of food production, for one thing, impinged unfavourably on the country's industrialisation programme by reducing demand for manufactures.[69]

From 1961 to 1966 when the Nkrumah regime imposed a vigorous control on the importation of goods, the value of the imports of food and live animals declined steadily from 1961 to 1963 and then kept fluctuating around the 1963 level until 1966. From then on it started to mount yearly until the 1961 value was surpassed in 1969.[70] It was during the years of stringent import controls that the prices of locally produced foodstuffs exhibited sharp increases in the urban areas.

Large-scale mechanised farming as a "quick push" strategy for Ghana during the Nkrumah regime was not attended with much success and the little that was achieved proved too costly. For example, during the 1963-65 period the State Farm Corporation had to be provided with a budgetary subvention of over ₵19.0 million to finance its operations and subsequently its yearly deficits were in the neighbourhood of ₵4.0 million. What was wrong with the Ghana Government's agriculture programme during the early years of the country's political independence was not that the financial assistance given to the agricultural sector was inadequate, but rather that the policies pursued with respect to it were mostly wrong. Concerning the rate of

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68. The rising trend of the prices of locally produced foodstuffs continued to rise in the urban areas after 1966. The yearly price index numbers were, 1967 = 156.0, 1969 = 186.2, 1972 = 247.6 - See - Economic Survey.

69. See - Arthur Lewis's statement on the importance of raising food production in Ghana in his "Report on Industrialisation and the Gold Coast, paragraph 22.

70. The value of imports of food and live animals in 1961 was ₵52.4 million. It steadily fell to ₵37.0 million in 1963 and did not rise above ₵40.0 million until 1967 when it reached ₵43.2 million. From then on it rose yearly, it reached ₵79.5 million in 1970

transforming the sector, for example, rapid revolution was preferred to gradual evolution and for that matter the peasant farmer, supposed to be imbued with his traditional farming techniques, was not to be assigned any significant role.

Concerning the place of the small farmer in the development of the agricultural sector, especially in Africa, Professor Arthur Lewis expressed the following views a few years after the Second World War:

> "This article makes the point that in developing agriculture we must seek to do it through the African farmer, rather than by starting new plantation schemes. Since it was written the two biggest of such schemes, the groundnut scheme in Tanganyika and the poultry scheme in the Gambia, which at the time were thought to hold great promise, have had to be written off completely. It is no longer necessary to argue against such schemes; .... What we have to do for agriculture in Africa is mainly to fertilize African farming: to bring it knowledge, tools, water, better varieties and better organization; and to seek the strategic points where these new ideas may most easily be absorbed." 71

This agricultural development strategy which was espoused some years ago as one worthy of adoption by the metropolitan powers in their dealings with their African territories is also appropriate for adoption by the governments of independent African states of today in matters relating to their own agricultural sectors.

The assumption of office by a new government in 1966 was accompanied by a shift in policy regarding the roles of both the public and private sectors in agriculture. As a consequence of this wind of change extension officers from the Ministry of Agriculture resumed the provision of extension services to small scale farmers.

According to one estimate, there was in 1970 one extension officer to every 1,305 farmers. Besides the fact that the ratio of an extension officer leeway to make up, in actual practice the situation was worse because very many farmers indicated that they had never come into contact with an extension officer. 72 According to one authority there should be something

71. W. Arthur Lewis in "A Policy for colonial Agriculture", published in Arthur Lewis et al. Attitude to Africa, Penguin Books Harmondsworth 1951 pp. 70-71

72. Moses Danquah, Ghana Economic Review, 1972-73, Accra, p.47

like one extension officer to every 1000 farmers.[73] On this basis it becomes evident that in the case of Ghana where the level of illiteracy among farmers is very high the 1:1305 extension officer/farmers ratio attained in 1970 was far from satisfactory. Farmers in such circumstances need greater individual attention and thus smaller number of farmers to an extension officer.

The orientation of the Government's agricultural policies created new opportunities for private farmers. Mechanised farming and its potential benefits came to be appreciated by some farmers in the Savanna areas and some of these consequently took steps to acquire their own machines. The Ministry of Agriculture assisted by contracting to sell some 360 tractors worth about ¢400,000 on hire purchase terms to some farmers in accordance with the Government's new policy of largely transferring to the private sector, responsibility for its own farm mechanisation services.[74] Those who had not the means to acquire tractors embarked upon large scale farming by using simple ploughing implements which are harnessed to bullocks. The great majority of Ghanaian farmers continued to use traditional tools and methods as they had done for centuries, so under the new Busia government the Ministry of Agriculture adopted a programme which aimed at fertilizing the agricultural practices of the small farmer. In essence the proposals of the programme would have made him take a leaf out of the Book of his Japanese counterpart: to obtain an increase in productivity per acre by making heavier investment in the form of increased use or application of fertilizers, pesticides, better feeds, improved varieties of seeds and simple farm machines in place of the traditional hoe and cutlass (i.e. making use of appropriate technology).

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73. W. Arthur Lewis, "A Policy for Colonial Agriculture" in Attitude to Africa, op.cit. p.81

74. Moses Danquah, Ghana Economic Review, 1973-73 op.cit. p.47

To cater for the financial needs of the farming community the Agricultural Development Bank was formed in 1965.[75] In its operations the Bank had paid special attention to the needs of the small farmer because he has usually no easy access to the credit facilities provided by the conventional commercial banks. It can thus be inferred that the extension officer and the Agricultural Development Bank had much to do with the reform expected of the small farmer.

(vi) <u>The impact of developments in the agricultural sector on the country's trade and industrialization:</u>

(a) <u>Effects on trade:</u> Because the agricultural sector, as defined, accounted for a sizeable proportion of the country's gross domestic product - i.e. between 36 and 40 per cent - any changes in its activities were bound to have appreciable repercussions on the entire economy. Also, because, the country's comparative advantage, in the Heckscher-Ohlin sense, existed in the agricultural sector, any developments there would most greatly facilitate the rate of growth of the economy.

As indicated earlier in the study, international trade plays an important role in the operation of the Ghana economy. Exports as well as imports have in recent decades amounted to more than 20 per cent of the gross domestic product. By means of the former the country obtains all its capital equipment and most of its raw materials required for industrial development together with some essential food supplies and its entire fuel needs. A disruption let alone a diminution or cessation, of the imports of some of these items will result in the less efficient functioning of the economy. And all these in general are paid for with the proceeds of exports of which agricultural produce accounts for about 60 per cent.

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75. The Agricultural Development Bank was established in 1965 as Agricultural Credit and Cooperative Bank but it was changed to its present name in 1976 by a government decree.

It was mentioned above that the failure of mechanised farming and the neglect of the small farmers brought about the stagnation of the agricultural section. This, however, was true only of the non-cocoa sector. Cocoa production, which had been declining during the early post-war years showed signs of resuscitation after 1957. As a result exports more or less doubled from 206,000 tons in the 1957/58 season to 408,000 tons in the 1963/64 season. But because the f.o.b. unit price exhibited a falling trend during the period from ¢608.6 per ton to ¢439.8 per ton, the total annual earnings from the crop, as shown in Table 3.3, rose by only 42 per cent from ¢125.0 million to ¢178.0 million. Before the 1969/70 season the annual receipts from cocoa remained below the ¢200.0 million level.

It is held by some that the low nominal producer prices that were offered during and after the mid-60s, inhibited the growth of the cocoa industry. The low prices are connected with the cocoa tax policy pursued by the Government. There is, however, sufficient evidence to support the claim that the decline in recorded cocoa output is due more to the smuggling of cocoa beans to the neighbouring countries where the producer prices are higher than to a declining interest in cocoa farming. Anyway, the smuggling has had an unfavourable effect on the country's balance of payments.

Earnings from non-cocoa agricultural export items are shown in Table 8.8 which depict two points. First, the total annual values of the items formed only a small fraction of the earnings obtained from cocoa, and, second, the total annual earnings, as indicated by the index numbers, decreased by nearly 10 per cent over the period shown.

When the Agricultural Development Corporation's ordinance was being amended in 1952 the Minister of Agriculture and Natural Resources told the Legislative Assembly that the Corporation was to further:

"the Government's two-fold policy of developing export crops in order to reduce the present dangerous dependence on cocoa and at the same time developing crops for local consumption in order to ensure the maintenance of an adequate supply in (Ghana)." 76

Table 8.8 NON-COCOA AGRICULTURAL EXPORTS (IN 1968/69 PRICES) ₵'million

	1965/66	1966/67	1967/68	1968/69	1969/70
Bananas	0.05	0.03	0.03	0.03	-
Other fruits	0.21	0.02	0.03	0.06	0.07
Lime Juice	1.11	1.09	1.38	0.56	0.56
Yams	0.07	0.61	0.55	0.57	0.59
Coffee	2.62	1.80	1.56	2.02	2.24
Palm Kernels[b]	0.04	0.09	0.04	0.05	0.06
Shea-nuts	0.04	0.01	0.52	0.51	0.11
Kola-nuts	0.42	0.60	0.28	0.35	0.52
Total	4.56	4.25	4.39	4.15	4.15
Index	100.0	93.2	96.3	91.0	91.0

Notes:-

(a) Excludes timber, (b) Based on average price for January-June, 1968 and 1969.

Source: Based on Central Bureau of Statistics data.

It can be seen from Table 8.9 that apart from the addition of aluminium to the export list in 1967 the composition of the country's mechandise exports during the '60s and the early '70s did not change significantly from that of the '50s. The country's dependence on cocoa and allied products for its foreign exchange earnings continued to be pronounced, a reflection of the fact, as far as the agriculture sector is concerned, that diversification of crops for export purposes had not been attended with success.

76. Quoted in Gold Coast Agricultural and Fisheries Development Corporation, 3rd Annual Report and Accounts for period 1st January, 1952- 31st March, 1953, Accra.

Table 8.9 PERCENTAGE DISTRIBUTION OF VALUE OF EXPORT OF DOMESTIC PRODUCE 1959-72

	Item	1959	1962	1965	1968	1972
1.	Cocoa and Cocoa products	62.0	63.3	66.6	63.4	59.7
2.	Timber (logs)	7.1	5.2	5.9	4.8	7.7
3.	Timber (sawn)	4.7	5.8	5.1	3.7	3.9
4.	Bauxite	0.3	0.6	0.6	0.4	0.5
5.	Manganese	6.0	4.9	4.3	3.2	1.8
6.	Diamond	7.7	6.7	6.1	5.2	3.4
7.	Gold	9.9	10.1	8.5	8.6	9.2
8.	Aluminium	-	-	-	7.9	10.3
9.	Kola-nuts	0.7	1.3	0.3	0.1	0.1
10.	Others	1.7	2.1	2.6	2.7	3.4
	Total	100	100	100	100	100
Total in ¢'000		225,444	223,355	223,443	337,279	549,432

Source: Economic Survey, Accra, various issues

In Table 8.10 the overall, export performance of the country during the '60s is shown along with those of some selected countries and trading groups. When compared with the others Ghana's poor performance is graphically portrayed. Because the country is predominantly agricultural, performance of that nature and magnitude can be considered to reflect the nature of developments within the agricultural sector

Due note, however, must be taken of the fact that the evaluation of performance as shown in Table 8.10 was in terms of money value and not of quantum. If the later approach had been used the picture might have been different. As shown in Figure 3 of Chapter 7 the volume of the country's exports increased considerably during the early '60s, but because the unit prices of its exports fell sharply its exports proceeds became stagnant.

Table 8.10 EXPORT PERFORMANCE OF GHANA AND OTHER SELECTED COUNTRIES

Countries	1960-65	1965-68
GHANA	-10.2	1.6
Africa (excluding South Africa)	7.6	8.3
Ivory Coast	12.8	15.2
Dahomey	-5.7	17.0
Developing countries	5.9	6.6
Developed market economies	8.5	9.4
Centrally planned economies	8.6	8.0
World	7.9	8.6

Source: United Nations, A Survey of Economic Conditions in Africa, 1969, pp.77 and 80

Whilst export earnings showed no improvement, the imports bill kept increasing, but at a reduced rate as a result of the strict controls imposed in 1961. From 1966, with a new government in office, the value of imports rose steadily from ¢261.5 millions in 1967 to ¢443.1 millions in 1971. The imports of food and live animals rose from ¢42.3 million in 1967 to ¢79.3 million in 1970 before falling to ¢62.6 million in 1971, but expressed as a percentage of total imports it rose, with the exception of a slight fall in 1968 from 16.5 per cent in 1967 to 19 per cent in 1970 before falling to 14.1 per cent in 1971.

The big increases in food imports during the latter part of the '60s reflected the inability of the agricultural sector to meet the domestic demand for food. The increased imports adversely affected the country's development in the sense that foreign exchange earnings which could have been spent on spare parts and/or additional machinery for industrial development were used to finance such imports.[77]

During the later '60s and the early '70s successive governments took measures to increase the productivity of the agricultural sector as far as the production of foodstuffs was concerned. Some of these, e.g. the expansion of the extension service and the introduction of the use of fertilizers, have been mentioned above. Other measures which were taken to boost up food production included the establishment of the Food Production Corporation and the creation of the Grains and Legumes Board.[78]

Some of these measures were an indication of the Ghana Government's eager search for a solution to the emergent shortages in domestic food production. It appears Ghana had then reached a new threshold in the matter of food production and that this threshold could successfully be crossed only when the subsistence food growers whose surpluses of foodstuffs had formed the main source of supplies of the urban dwellers had been permanently replaced by commercial food producers. The alternative was to produce the required food supplies on state-owned farms and this could be successfully pursued, if only "embezzlement, wrong accounting, stealing of farm produce and unnecessary waste of manpower" could be checked.[79]

(b) Effects on industrialisation: In addition to producing food, agriculture's other contribution to industrialization is to provide some of the requirements of raw materials. The extent to which the sector has been able to do this in Ghana is on the whole, quite small. Until the late '60s the production of industrial crops was generally undertaken not on

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77. See – F.A.O. Agriculture and Industrialization – Basic Study No.17 Rome 1967, pp. 3-5

78. The "Operation Feed Yourself" campaign which was launched in 1972 was a move adopted to galvanise interest and action in food production. The campaign was highly successful in achieving its objectives, but the successes were registered after 1972. For the principal aims of the Government's new agricultural policy, see – the Government's White Paper, "Outline of Government Economic Policy" (Accra, 13th June, 1972)

79. See – Moses Danquah, Ghana Economic Review 1972/73, op.cit. p.52 In a subsequent issue two other factors causing low productivity were mentioned. They were "lack of commitment of workers" and "poor supervisory controls."

account of the individual needs of the nascent or planned industries but rather in response to political directives which were not usually based on careful consideration of industrial needs. Such developments as took place up to 1972 can best be assessed in terms of individual crops, excluding cocoa.

Oil Palm Products: As mentioned in previous chapters, for some time during the nineteenth century, palm oil was Ghana's most important export product. In the central and western parts of southern Ghana the nuts were obtained from wild plants, but early this century an oil palm plantation was set up on a moderate scale in the Western region by an expatriate firm to introduce modern methods of production. This plantation was later acquired by the Agricultural Development Corporation in its endeavours to establish large-scale farms engaged in the production of selected crops right across the country.

Oil palm is still cultivated in the country mostly by the peasant farmers and their output of palm oil together with that from the plantations cannot satisfy domestic demand for dietary purposes alone. The cost of producing one ton of palm oil in Ghana was quite high in the late '60s. For example, the State Farms retailed palm oil in 1968 at ₵407 a ton when the world market price was then ₵125 a ton.[80] Because of inadequate domestic production of palm oil, the large and medium scale soap factories in the country have had to depend on imported supplies of oil.

The cultivation of oil palm has not been embarked upon as it was in the case of cocoa. Though a few plantations and small scale oil palm farms exist, most of the palm nuts are supplied by peasant farmers who obtain them from wild plants that have germinated from seeds dispersed by crows. As shown in Table 8.4 the area mainly or predominantly under oil palm cultivation just before 1970 was 44,000 acres, yet as indicated in Table 8.11, the contribution of palm fruit to the total value of agricultural production

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80. Ghana Government One-Year Development Plan, op.cit. pp.63-64

Table 8.11 RELATIVE CONTRIBUTION TO TOTAL VALUE OF AGRICULTURAL PRODUCTION, GHANA 1970/71

	Percentage		Percentage
Cocoa	34.6	Cattle	0.9
Plantain	13.3	Tomatoes	0.8
Cocoyam	8.9	Palm fruit	0.5
Yam	8.4	Copra	0.5
Cassava	8.4	Cow peas & beans	0.5
Maize	3.5	Goats	0.4
Guinea corn	2.7	Coffee	0.3
Chicken eggs	2.4	Guinea meat	0.3
Ground-nuts	2.2	Sheep	0.3
Millet	2.0	Guinea eggs	0.1
Chicken meat	1.8	Oranges	0.1
Dried pepper	1.6	Limes	0.1
Pigs	1.6	Sugarcane	0.1
Rice	1.4	Tobacco	0.1
Okro and Garden eggs	1.2	Rubber	neg.
Shellots	1.2	Cotton	neg.
		Total	100

Source: B.E. Rourke, "Rural Employment and Labour Productivity in Ghana" mimeo. Legon, Ghana, March 1974.

during the 1970/71 period was only 0.5 per cent. It is worth noting that palm kernel, which is also obtained from the fruit of the palm is produced mostly for export.

Rubber: The country began exporting natural rubber towards the end of the nineteenth century. The latex was obtained from an indigenous tree, funtumia elastica, which grew wild. Because it was also low yielding in latex a new species - heaved brasiliensis - was introduced into the country at the beginning of the present century. The export trade in rubber declined considerably during the '20s and rubber cultivation was consequently neglected. During the '50s, however, much of the efforts of the Agricultural Development Corporation was directed towards the revival of large-scale rubber production in the country. In 1967, the Ghana Government and the Firestone Tyre and Rubber Company of U.S.A. entered into a joint partnership to develop the rubber plantations which had been operated by the A.D.C. and later by the State Farms. One of the results of the partnership agreement was the formation of Ghana Rubber Estates Limited. The initial target was to develop a 20,000 acre rubber estate which would eventually be expanded to 40,000 acres.

One estimate in 1970 put the total area under rubber cultivation in Ghana at 25,000 acres, of which 4,000 acres were in tapping.[81] Three-quarters of the area being tapped belonged to Ghana Rubber Estates Limited and the rest to small-hold farmers. The latex is supplied to a modern tyre factory at Bonsaso in the Western region - jointly owned by the Firestone and Rubber Company and the Ghana Government - and has been the factory's source of supply. With increasing output some of it will eventually be exported. However, as shown in Table 8.11, the contribution of rubber to the total value of agricultural production during 1970/71 was negligible.

Cotton: Raw cotton was produced mostly for export in southern Ghana during the 18th and 19th centuries.[82] Its cultivation during the present century

81. Ministry of Agriculture, Ghana Sample Census of Agriculture, 1970 op.cit. p.139

82. K.B. Dickson, op.cit. pp.126-9 and 154-6

sharply declined after the First World War. When modern textile mills were established in the '60s, the cultivation of raw cotton was not revived in order to obtain from domestic sources the necessary lint requirements. The textile industry expanded very rapidly after 1967 with the result that in 1972 domestic production accounted for 93 per cent of the domestic sales of woven cloth. But expansion with entire dependence on imported lint meant increasing the pressure on the balance of payments. Therefore under a new government a Cotton Development Board was set up in 1968 to promote the cultivation of cotton on a large scale in suitable parts of the country. The programme of the Board included the provision of seed, fertiliser and insecticide to farmers as well as the training of extension officers to provide the farmers with the necessary advice.

In 1969, the first full year of the Board's operation 116.5 tons of cotton were produced,[83] equivalent to about 3 per cent of the total amount of cotton used by the textile industry that year. In the 1972/73 season the production of raw cotton reached 1885.4 tons from which 725.0 tons of lint were obtained. Though the output of cotton over a period of four years showed a considerable increase, it nevertheless fell far short of the requisite demand of the textile industry. For 1972, 5,951.0 tons of cotton had to be imported.

In terms of acreage the spread of cultivation has been rapid. Whereas only 870 acres were put under cotton cultivation in 1968, in the 1972/73 season the acreage grown increased more than tenfold, (i.e. 9,168.5 acres) and involved about 8,500 farmers.[84]

Kenaf: In its cocoa trade Ghana requires about 8 million bags for every 400,000 tons of cocoa exported and all the bags had to be imported. In addition to the cocoa trade jute bags are needed for the transportation of cereals. Therefore, to conserve foreign exchange a fibre bag factory was set up. In started to operate in 1963 and relied entirely on imported Kenaf.

83. Ghana Government, One-Year Development Plan, op.cit. p.63

84. Ghana Information Services Department, Ghana 1976, An Official Handbook, op.cit. p.185

The Government later felt that the agricultural sector could help in achieving greater savings in foreign exchange if kenaf could be grown locally as a substitute for the imported supplies. A Bast Fibres Development Board was consequently created in 1969 to promote the cultivation of kenaf among the farmers.

In 1970 one ton of kenaf seed was imported and planted over an area of about 100 acres.[85] The cultivation of the crop was initiated in the Ejura district in Ashanti and has since been confined mainly to that area. The national requirement for kenaf was estimated at 12,000 tons in 1970 and this was the production target the Bast Fibre Development Board has been aiming at.

Tobacco: Tobacco cultivation for commercial purposes began in Ghana in 1953 under the guidance of a tobacco processing firm. However, the organization and supervision of tobacco growing throughout the country was taken over in 1969 by the Ghana Tobacco Company Limited, a venture jointly owned by the Government and some private interests.

Farmers' response to advice and incentives has been favourable and the interest shown has been such that cultivation has spread to many villages in different parts of the country. Domestic cultivation of raw tobacco rose from 2.7 million lbs. in 1967 to 3.8 million lbs in 1972.[86] In the latter year almost all the cigarettes and about 70 per cent of the blended leaf tobacco required by the domestic market were produced locally. It is worth noting in this connection that of the total leaf inputs used in 1970 and 1972 the proportion was 68 and 78 per cent respectively. The aim of the Ghana Tobacco Company Limited is to expand output until all the domestic requirements of raw tobacco are met. To achieve this objective the company has been providing the over 20,000 tobacco growers registered with it the

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85. Ghana Government, One-Year Development Plan, op.cit. p.63

86. Ghana Information Services Department, Ghana 1976 - An Official Handbook, p.187

following facilities: free supply of insecticides and fungicides for the farmers' tobacco nurseries; free extension service on tobacco cultivation and construction of barns for curing; provision of mechanization services and negotiating and guaranteeing bank loans for farmers.

Sugarcane: The country has two sugar factories with a combined capacity of between 33,000 and 40,000 tons. Both factories have been working far below their combined minimum capacity. Production in 1969 and 1970 was 13 and 16 per cent respectively of 33,000 tons. At the factory at Asutsuare it cost ¢3,045 to produce a ton of sugar in 1969 as compared with c.i.f. plus duty price of ¢176.2 a ton of imported sugar. This factory was however able to reduce production cost to ¢589 a ton the following year. The basic cause of the high cost was managerial incompetence coupled with lack of technical personnel. But other contributory factors, which equally affected the other factory at Komonda, originated from the agricultural sector. In the first place, productivity of the plantation workers has been very low. Manpower worked per day are very much reduced by the practice of workers using working hours to travel the appreciable distance between the plantations and their living places. This is particularly true of the workers at Asutsuare. Secondly, supplies of cane to the factories have been intermittent, and thereby causing frequent stoppages of work and low capacity utilisation. Thirdly, on account of poor agronomic practices the cane yields are low. Compared with yield of 31 tons per acre in other parts of Africa with similar conditions, yields at Asutsuare declined from 25 tons per acre in 1966 to 10 tons per acre in the early '70s and at Komenda from 29 tons per acre to 19 tons per acre over the same period. Fourthly, the sugar content of some of the species grown is too low. The recovery of sugar from cane has been 4 to 6 per cent as compared with the normal rate of 9 to 10 per cent.

Animal hides and skins: A variety of industries using leather sprang up in Ghana during the '60s. The most notable of the leather-users is the state-owned shoe factory at Kumasi, reputed to be one of the largest in Africa. This factory like other users of leather has been experiencing both inadequate and intermittent supplies of leather which are mostly imported.

It was estimated in 1970 that Ghana had about 900,000 cattle, 1.3 million sheep and 1.4 million goats.[87] The livestock population of the country has been unable to meet its requirements of meat and animal skins. From 1967 to 1972 an average of 55,000 cattle and 44,000 sheep were imported each year. Again the quantity of leather, skins and hides imported in 1972 amounted to ₵1.2 million. In Table 8.12 are given the values of live animals and other agricultural products imported into the country during the period 1967-1972.

Table 8.12 VALUE OF PRINCIPAL IMPORTED AGRICULTURAL COMMODITIES

	1965	1967	1969	1970	1971	1972
Live animals	5,126	6,082	8,525	7,588	6,136	4,977
Meat	3,186	3,869	3,394	5,096	3,710	2,675
Diary product and eggs	4,416	5,968	8,334	9,309	10,858	7,645
Cereals	8,978	14,528	16,434	20,759	13,394	15,696
Sugar & Honey	5,498	5,425	8,516	16,537	10,525	14,194
Oils and fats	2,992	3,385	5,665	3,713	5,188	5,192
Cotton	169	1,123	1,866	5,429	4,737	7,297
Tobacco	1,394	2,594	195	1,992	3,072	1,476
Total	31,759	42,974	52,929	70,423	57,620	59,152

Source: Central Bureau of Statistics, Statistical Year Book 1969-70, Monthly External Trade Statistics, December, issues for 1971 and 1972 and Annual External Trade Statistics for 1966-68.

87. Ministry of Agriculture, Ghana Sample Census of Agriculture, 1970 op.cit. chapter 8

The country has the potential for developing a commercial cattle rearing industry that can provide enough meat to satisfy market demand and hides and skins for the production of the needed leather. There is enough space in the northern savanna areas for such a venture but no concrete measures have been taken by the Government to have one created.

It can be said that the development of agricultural activities for the promotion of agro-based manufacturing in the country has been uneven. In the case of tobacco growing, for instance, the possibility of the cigarette industry obtaining locally its tobacco leaf inputs was forseen and well-planned for, but in other instances, like cotton and oil palm cultivation as well as large-scale rearing of livestock, no action was taken to develop the agro-based activities to provide locally the necessary supplies. In the latter situation required inputs had to be imported, with the consequent increase of pressure on the balance of payments.

(vii) Summary: The two most prominent features of Ghanaian agriculture are the prevalence of small-scale farmers and the dominance of cocoa cultivation. The expansion of cocoa output was successfully undertaken during the latter part of the '50s, but because of a fall in its price in the world markets at the same time the proceeds obtained from it sales levelled off. The non-cocoa agricultural products, through failure of increased production, made no notable contribution to domestic requirements of both food and raw material supplies. The cause of the stagnant production of the sector, besides cocoa output, was the Government's attempt to effect fundamental reforms appertaining to the sector's organisation and farming techniques. Many farmers were formed into politically controlled cooperatives and under ideological motivation state farms were also established. Both types practiced large-scale mechanised farming and were placed under the management of incompetent party supporters. For several reasons workers' productivity was low and farming operations slow and costly.

The small-scale private farmers who had been the backbone of the country's agriculture were neglected by the Government and they were accordingly deprived of all extension services. The result was that concerning foodstuffs output greatly decreased, prices rose appreciably and imports increased. With regard to raw materials the domestic potential for producing the various types required by the nascent manufacturing industries was not evenly and fully exploited

CHAPTER 9

THE MANUFACTURING SECTOR IN GHANA, 1960-1972

(i) The manufacturing sector at the beginning of the 1960s: A brief account of the state of the country's manufacturing industry during the period 1959-60 appeared in the Economy Survey for 1960. The information provided related mostly to establishments employing five or more persons and was based to a considerable extent on the 1959 industrial census data.

It was indicated that there were then at least 226 establishments in the category covered by the industrial census and that together they had a gross output of just over £G20.0 million (¢40.0 million) and a value-added share in the 1959 gross domestic product of nearly £G11.0 million (¢22.0 million). They in addition provided employment for about 21 thousand people. However, the manufacturing sector in its entirety, that is inclusive of establishments employing less than five persons, was then estimated to have accounted for a value-added of nearly £G19.0 million (¢38.0 million).[1] The 1960 industrial census was reported to have indicated that the value-added of the entire manufacturing sector for that year showed an increase of nearly 25 per cent over that of 1959.[2]

Developments within the sector during the year included the completion or near completion of the construction of 64 factories each of which was capable of employing no fewer than ten persons. Prominent among these were a brewery and two assembly plants. It was also reported that in view of

1. The ratio between employment remuneration and the value-added of the establishments covered by the 1959 industrial census was found to be 1:2.728. On the basis of this figure and on the fact that the total wages and salaries paid by the entire manufacturing sector in 1959 amounted to £G6.95 million, as shown by estimates from national income figures, the value-added of £G18.95 million, for the entire manufacturing sector was derived. See - Economic Survey, 1960 para. 115-117. The estimate is acceptable if only the following are granted: (a) that the production techniques used by the establishments irrespective of the kind of manufacturing activity were alike in capital intensity, (b) that labour productivity was the same throughout the sector and, (c) that wages paid in all categories of establishments were proportional to labour productivity.

2. C.B.S. Economic Survey, 1960, Accra, pp. 34-35

its earnest desire to assist in the rapid expansion of the manufacturing sector the Government had set aside ₵20.0 million for the direct investment in industrial ventures.[3]

There was a slight slackening in the tempo of industrial activity in 1961 and this was attributed primarily to a decline in the manufacture of beverages and tobacco which during the year decreased by over 30 per cent.[4] This contraction inevitably had a distinct effect on the total output of the manufacturing sector as beverages and tobacco were then the second largest of the manufacturing groups and were then contributing about 35 per cent of the total value added of the whole manufacturing industry.[5]

Declaration in the rate of growth of manufacturing, however, occured in both the private and the public sectors. With respect to the latter, the contributory factors were said to be general re-organisation of the state enterprises and the adoption of new planning procedures and in the case of the former the main causes were assigned to the trade policy measures contained in the 1961 Budget, for example, significant increases in import duties on a wide range of goods and the introduction of purchase tax system.[6] The contraction in the domestic output of cigarettes was believed to have been caused by a switch in demand from locally produced to imported brands during the latter part of 1961, because in consequence of the budget proposals of the year the proportionate increase in tax on the latter was less.

Mention must here be made of the fact that the 1961 Budget marked the end of an open economy trade regime which was characterised by the operation of low tariffs, few import restrictions and little or no foreign exchange controls. It, on the other hand, ushered in a closed economy as a result of

3. Ibid. p.37

4. C.B.S. __Economic Survey, 1961__, p.53. There is discrepancy concerning the figure for the 1960 rate of growth of the manufacturing industry as published in the Economic Surveys for 1960 and 1961. The essential point however, is that a decrease in the rate of expansion occured in 1961.

5. See Table 6.5 and chapter 6, footnote 13 for note on tobacco and beverage production.

6. C.B.S. __Economic Survey,__ 1961, p.19

the imposition of high tariffs on a wide range of imported items, namely, consumer goods. This was subsequently followed by the introduction of import licenses and foreign exchange controls.[7]

It is worth noting, too, that when Ghana began to intensify its efforts to industrialise in 1957, it concurrently initiated a programme of lowering the relatively high rates of tariff that had existed in the colonial days against certain countries as well as removing as far as possible the quantitative restrictions or embargoes that had been imposed on imports from certain countries. These actions were a distinct departure from the trade policy measures of erecting high tariff walls usually adopted by less developed countries during the early stages of their industrialisation.[8]

The trade policy measures contained in the 1961 budget were specifically intended to ease the pressure on the balance of payments which had developed as a result of a series of trade deficits since the mid-'50s. They were indeed not gained at fostering import substitution, though since adopted they made conditions in the domestic market so conducive to the development of import replacing industries, especially those specialising in the production of consumer goods.

The progress of industrialisation during 1962 was commented upon by the magazine West Africa in an article headed "Ghana's Year of Development."[9] Upon listing the variety of factories that had been built in the industrial area at Tema, the paper considered the industrial achievements of the year to be a consolidation of the industrial developments that had taken place earlier. The factories mentioned ranged from those that manufactured suitcases and paints to such large-scale structures as the AGIP oil refinery and the VALCO aluminium smelter.

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7. All Open General Licences were revoked on 1st December 1961 as a move to reinforce the budget proposals of that year with quantitative restrictions.

8. The adoption of the measures together with reasons has been considered in Chapter 4.

9. West Africa, January, 12, 1963, p.45

Of much significance were the salient features which the country's industrialisation had then assumed. One was the emergence in increasing numbers of secondary processing industries, in general based on agricultural crops that could be grown locally, but which were nevertheless new to the country. Among such industries were those producing cotton goods and tobacco. Another feature was the establishment of factories for the manufacture of products which had formed a disproportionate amount of the country's total imports. The goods produced by this category of factories included textiles and aluminium sheets and utensils. A third characteristic was the formation of enterprises for manufacture based on voluntary partnership between the Government and private business organisations. This was exemplified by the joint state/private venture of the Government and Phillips of Netherlands for the assembling of radio sets and a similar joint venture by the Government and a Japanese firm for the assembling of vehicles.

The report on manufacturing in Economic Survey 1962, highlighted another feature of the country's industrial development, and that related to allocation to the rural areas of small-scale industries that utilised such inputs as rattan and coir. Also completed during the year and located in the small country towns were five state-owned mills for the processing of oil seeds.[10]

(ii) Investment incentives for accelerating the growth of manufacturing: Industrialisation had been embarked upon by the country in the early years of political independence as a means of throwing off the colonial yoke and of acquiring self-respect in the world at large.[11] This continued to be the motive of the country's industrialisation drive for quite a time, even after it had become apparent after 1954 that external transactions had put the economy under great stress. Until after 1961 no mention was made of the balance of payments as either the objective or one of the objectives of the programmes for industrialisation.

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10. C.B.S. Economic Survey, 1962, Accra pp. 56-57

11. Kwame Nkrumah, Africa Must Unite, op. cit. p.112

Despite the economic strains experienced in consequence of trade since the mid-'50s the country's foreign exchange reserves did not suffer from any appreciable drain up to 1960. In 1956, for example, they stood as ₵379.6 million and after slight changes in value registered ₵297.3 million at the end of 1960. But a sharp and sudden fall in the value of the foreign assets took place during the next twelve months, and at the close of 1961 the reserves were worth only ₵147.4 million, about half their value a year earlier. (See Table 7.4). One of the factors contributing to this development was the rapid increase in the volume and value of imports, whilst export earnings remained stagnant. Visible trade balance turned from a surplus of ₵39.9 million in 1958 to a deficit of ₵27.2 million in 1960, the first of an unbroken series of visible trade deficts to be had during the first half of the 1960s. (See Table 7.9).[12]

The emergence of the foreign exchange crisis led the Government after 1961 to widen the objectives of the industrialisation programme to include easing the mounting pressure on the balance of payments: an additional objective which in the succeeding years became the one of prime significance. The Government's intentions were expressed through the enactment of the Capital Investment Act of 1963 and by it provided a variety of incentives aimed at attracting foreign investors. The Capital Investment Act superseded the Pioneer Industries and Companies Act of 1959 and the accompanying Import Duties Act which provided for the remission of import duties to approved companies.

The Capital Investment Act[13] contained assurances to investors on the possibility of transferring abroad capital, profits and approved external loans. It also contained provisions on protection of assets from expropriation and compensation in case of nationalisation. The economic benefits,

12. The balance on current account deficit rose from ₵67.0 million in 1960 to ₵105.4 million in 1961. Other factors which led to the sharp drop in foreign exchange reserves were loans amounting to ₵20.0 million made to some African countries and the purchase of some gold mines costing ₵11.0 million.

13. The Capital Investment Act 1963 also provided for the setting up of a Capital Investment Board which was entrusted with administering the provisions of the Act.

provided by the Act to assist a project in its early stages include exemption from the payment of income tax on the project's taxable income for a period ranging from 5 to 10 years; capital allowance in respect of buildings, plants, machinery, equipment, etc. used for the purpose of a business project,[14] with schedule as shown in Table 9.1; deduction for the cost incurred on scientific research undertaken with a view to developing or advancing a project already approved, and exemption from the payment of property tax and rates for a period of 5 years in respect of a warehouse, factory or workshop either constructed or acquired for the purpose of setting up an approved project.[15]

(iii) Protection of economic activities in the manufacturing sector: A section in the Capital Investment Act provides that all approved projects engaged in import replacing activities or using local raw materials to produce goods for export might be granted exemption from the payment of imports and customs duties and also purchase tax. When this provision on exemptions is considered in the light of the tax schedules annexed to the Purchase Tax Act as amended in 1962, the degree of protection which is given to some infant industries in Ghana by the two legal enactments easily becomes evident.

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14. Where depreciation allowance is granted in addition to capital allowance the cost in terms of loss of revenue may be great, but will have to be evaluated against additional employment and income generated by the investment,. See George E. Lent, "Tax Incentives for Investment in Developing Countries." IMF Staff Papers, Vol.17, 1967, p.249 ff.

15. The terms granted to foreign investors under the Capital Investment Act 1963, were very generous in that they did not include any clauses which required specified minimum portions of the investors' labour and material inputs to originate from the country or equity participation by the indigenous people as is usually demanded by governments in L.D.Cs. This shows the eagerness with which the Government wanted to attract foreign investment. A probable reason for the Government's attitude is that for political reasons the Government wanted to sustain the pace of industrial development and as the country's foreign exchange reserves were rapidly dwindling at that time it very much wanted an inflow of foreign capital to help it attain its objectives.

After 1966, the NLC Government which introduced regulations which demanded from foreign investors participation of indigenous in equity capital (in enterprises with not more than ¢200,000 fixed capital investment) and Ghanaian participation in the management of expatriate firms. See Two-Year Development Plan, op.cit. p.55 and p.57

It is worth noting that to all intent and purposes the Ghanaian purchase tax looks like a customs duty. It is paid at the port of entry by the importer on the arrival of the goods and when later the goods are sold, it is incorporated in the price and not shown separately.

Before 1961 the tariffs on imports had been generally 25 per cent ad valorem, though much less in the case of food items and such essential commodities as soap and utensils; but from that year onwards tariff rates were greatly increased with respect to a wide range of goods.

Table 9.1 SCHEDULE OF CAPITAL ALLOWANCES APPLICABLE TO THE MANUFACTURING SECTOR

(a) MACHINERY, PLANT ETC.	Machinery	Plant	Furniture, Fixtures & Fittings
Initial allowance	20%	20%	20%
Annual allowance	10%	7½%	7½%

(b) BUILDINGS, INCLUDING RESIDENTIAL PROPERTY	Mining & Timber	Other Business
Initial allowance	10%	10%
Annual allowance	5%	3%

Source: GHANA INVESTMENT CENTRE, CIB Investors' Manual, Accra, no date, p.38

One estimate of the average tariff rates for the major groups of imports by end-use in the mid-'60s is as follows: capital goods, 2.29 per cent; intermediate goods for industries producing capital and intermediate goods, 8.90 per cent; intermediate goods for industries producing consumer goods, 16.33 per cent; intermediate goods for the tobacco industry, 135.82 per cent; consumer durables, 25.04 per cent;

consumer non-durable, 48.06 per cent; fuel and lubricants, 226.30 per cent.[16] Because in consequence of the 1961 budget proposals customs duties have since then been supplemented by purchase tax of which the rates and the related items are shown in Table 9.2. The tariff-tax combination provides a much increased "nominal tariff protection"[17] to domestic manufacturing units that engage in the production of the items that are affected by the stated price measures.

The import licensing system and the exchange controls which come into force immediately upon the abolition in late 1961 of the open general licence soon developed into major instruments for regulating the country's import trade in the attempt to secure a balance of payment equilibrium.

The application of non-price measures resulted in shortages of imported goods and consequently in increasing differences between the domestic and world market prices of the goods. Price differentials brought about in this way is referred to as "implicit" tariff and it provides protection[18] to domestic manufacturing activities. However, in view of the fact that after 1961 balck market transactions covered a wide range of imported goods in short supply, it is difficult to estimate accurately without reliable domestic prices for such goods the nominal implicit protection that was afforded local manufacturing activities, even where the imported quantities of the various categories of goods for different periods can be ascertained from the external trade statistics.

16. See - W.F. Steel, "Import Substitution and Excess Capacity in Ghana" in Oxford Economic Papers, July 1972, pp. 212-240. Steel arrived at the figures by dividing actual collections of customs duties in 1966 by the value of imports in the particular category that year. Because of exemptions granted under the 1963 Capital Investment Act, the figures represent "realised" tariff rates and somewhat lower than the nominal tariff rates.

17. This term refers to the tariff equivalent of all price measures of protection and thus covers ad valorem and specific tariffs, import surcharges, advance deposits for imports and multiple exchange rates. It is also applicable to Ghana's purchase tax which discriminates against many imports.

18. For a comparison between quantitative restrictions and tariffs see- J. E. Meade "The Theory of International Economic Policy" Vol.II - Trade and Welfare, OUP 1955, pp. 173-5

Table 9.2 PURCHASE TAX RATES IN FORCE IN GHANA DURING 1962

5%	10%	
Bicycles Tricycles	Domestic stoves Cookers Boilers Toasters	Irons Vacuum cleaners Kettles Water heaters Desk fans
33⅓%	**66⅔%**	**100%**
Sewing machines Typewriters Wireless sets Radiograms, tape and Wire recorders, Record players, Refrigerators, Airconditioning units, Tyres and tubes of all discriptions, Musical Instruments, gramaphones and records, Washing machines, Carpets, carpeting, Apparel-outer garments.	Watches and clocks all kinds of Cameras and Projectors	Furniture, all kinds, Complete

VEHICLES

Cars other than commercial vehicles: 10% to 75% according to value.

Commercial vehicles imported and fully assembled outside Ghana - 5% to 33⅓%, according to value

Commercial vehicles assembled in Ghana: Nil to 20% according to value.

Motor cars, side cars, etc. imported, assembled or unassembled: 7½%

Source: First and Second Schedules to the Purchase Tax (Amendment) Act 1962 (ACT.146), Government Printer, Accra.

The different concepts of protection so far considered are those calculated on the basis of the price of the product. Estimates of a different order are obtained when calculations are based instead on the value added of the units of production. The new measures are those of the "effective rates of protection."[19] Given the conditions of constant production costs, absence of substitution among factors and also absence of abnormal monopolistic profits, the effective protection measure, with the aid of the ranking of protected activities, provides an indication of the relative incentives which protection gives for the movement of resources to such activities.[20]

For Ghana, estimates of nominal, effective and "net"[21] rates of protection have been compiled by J. Clark Leith for a broad range of industrial activities for 1968 and 1970.[22] However, it is worth noting that

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19. For an account of this concept the following are cited for consultation: W.M. Corden, The Structure of a Tariff System and the Effective Protective Rate," Journal of Political Economy, June, 1966, pp.221-37; W.M. Corden, The Theory of Protection, OUP, 1971; Bela Balassa and Associates, The Structure of Protection in Developing Countries, The Johns Hopkins Press, 1971; J. Clark Leith " The Effect of Tariffs on Production, Consumption and Trade: A Revised Analysis", American Economic Review, March, 1971

20. Some economists are now questioning the claim being made for the effective rate of protection as the sole source of influence on the movement of resources to different productive activities. For the arguments of some of those who make such a claim see Balassa and Associates, op.cit. and Balassa "Trade Policies in Developing Countries in American Economic Review, May 1971, p.178. It is indicated by the recent findings of some researchers that such factors as population size, per capita income, relative factor abundance and technological efficiency also influence resource allocation and economic growth. As effective rate of protection by itself is a partial equilibrium formula, it is felt that by assigning all factor movement incentive effects to it general equilibrium interactions are thereby ignored. For this observation, see- Stephen Guisinger, "The Trade Policies of Less Developed Countries" in American Economic Revies, papers & proceedings, 1971, p.207

21. As the protection given to industries is extended through the imposition of tariffs on more goods, the exchange rate that maintains the balance of payments equilibrium declines from the free trade level. Foreign currencies and imported goods in effect became cheaper. Under such conditions when after making the necessary adjustment to the balance of payments equilibrium exchange rate under free trade an appropriate equilibrating exchange rate is obtained and used, the calculation yields the "net" effective rate of protection.

22. J.Clark Leith, Foreign Trade Regimes and Economic Development: Ghana. Columbia University Press, 1974, pp.58-77

because of the serious external imbalance which Ghana began to experience as from the late 1950s, the trade policy which was pursued by the Government aimed in the main at establishing a balance of payments equilibrium. The restriction of imports became the chief administrative mechanism for giving effect to the trade policy adopted and in its operation both price and non-price measures have since been employed. Whilst the adoption of price measures against imported consumer goods and their non-enforcement against imported capital goods and material inputs have been intended to provide protection for domestic industries, the application of the latter variant of measures in the form of import licensing and exchange control has either completely removed or considerably reduced whatever protection price measures must have provided them with. The use of non-price controls has resulted in a widespread phenomenon of low levels of capacity utilisation and high production costs in the manufacturing sector.[23]

In view of the erratic and improper manner in which import licences were often issued as well as the wide disparities which generally existed in Ghanaian markets between the publicised "official" and the actually prevailing retail prices of most imported consumer goods, Clark Leith's calculations of the effective rates of protection provided for many economic activities in Ghana can therefore be regarded as indicating magnitudes of protection based on the tariff rates and "official" prices and not those actually experienced by local industries. But with regard to the impact of Government action on the movement of resources we, however, wholeheartedly agree with Steel when he states that

> "The import licensing system .... became the primary determinant of the pattern of investment and production in manufacturing through its control over machinery, materials, and parts. Licensing was a potential tool of direct Government intervention to allocate resources in market prices." 24

23. Excess capacity will be dealt with below

24. W. E. Steel, op.cit. pp.221-222

(iv) Growth response to incentives: The enactment of the Pioneer Industries and Company Act in 1959 attracted some investors and by 1962 about 42 firms had been registered and accorded pioneer status.[25]

With the intention of generating an acceleration in the growth of the country's manufacturing activities the Government in 1962 proposed to introduce legislation making it binding on firms to reinvest annually 60 per cent of their profits. However, because of the misgivings the .... caused among the business community, it was abandoned in the budget proposals of the following year.[26] The Capital Investment Act of 1963 was meant to streamline and integrate the existing laws which offered incentives to investors. The interest which its new features first aroused declined soon afterwards as a result of a deterioration of business climate. The ambivalent policy of the Nkrumah government rewards private investment was mainly responsible. From the beginning of 1964 to the day the Nkrumah government was overthrown in February 1966, only 25 new firms intending to invest £G22.0 million (₵44.0 million) were approved.[27] There was, however a spate of applications after the coup. During the first eleven months 31 such applications were received.[28] The growth after 1966 in the number of manufacturing establishments employing more than 30 persons is shown by Table 9.3[a] and the number of new enterprises granted investment concessions during the 1969/72 period is shown in Table 9.3[b] together with the value of their investments.

(v) Factors influencing the structure and tempo of manufacturing activities before the Nkrumah overthrow: Unlike the industrialization of the Second Development Plan which were broadly stated as promoting the

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25. See - G.E. Lent, op.cit.

26. See - West Africa, January 12,1963, p.45 and October 26,1963, p.1223

27. Under the Capital Investment Act of 1963 a Capital Investment Board was set up with stipulated functions and procedures. Among the former can be listed the promotion of investment in the country and the granting of fiscal concessions and other related incentives for approved investments.

28. See - G.E. Lent, op.cit. and Table 9.3.

Table 9.3(a) OWNERSHIP STRUCTURE OF MANUFACTURING ESTABLISHMENTS, 1963-69

OWNERSHIP	1963		1964		1965		1966		1967		1968		1969	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
State	31	17.6	35	18.7	38	18.9	46	20.0	40.	16.1	40	11.6	36	10.1
Joint State-private	6	3.4	7	3.7	8	3.9	7	3.0	11	4.4	12	3.5	11	3.1
Private	136	77.3	142	75.9	152	75.6	174	75.6	195	78.6	293	84.6	308	86.5
Co-operative	3	1.7	3	1.6	3	1.5	3	1.5	2	0.8	1	0.3	1	0.3
Total	176	100.0	187	100.0	201	100.0	230	100.0	248	100.0	346	100.0	356	100.0

(Note: Data relate to establishments engaging 30 or more persons).

Table 9.3(b) OWNERSHIP STRUCTURE OF APPROVED PROJECTS WITH CAPITAL COMMITMENTS JULY 1969 TO JUNE, 1972

OWNERSHIP	No of Projects			% Distribution of Projects			Total Capital ¢'m.		
	1969/70	1970/71	1971/72	1969/70	1970/71	1971/72	1969/70	1970/71	1971/72
State	3	1	-	13.6	7.7	-	9.3	-	-
Joint State- Foreign	1	-	3	4.5	-	13.6	9.2	2.4	12.0
100% Foreign	7	2	3	31.8	15.4	13.6	8.5	0.5	2.0
100% Ghanaian	7	4	6	31.8	30.8	27.3	2.8	0.5	5.7
Joint Ghanaian-Foreign (Private)	4	6	10	18.2	46.1	45.5	5.3	8.0	12.2
Total	22	13	22	100.0	100.0	100.0	35.1	11.4	31.9

Source: Date for Table 9.3(a) from Industrial Statistics, 1962-64, 1956-66, 1966-68 and 1969 pp.48,38,39 and 32 respectively,

Date for Table 9.3(b) from Capital Investment Board's Annual Report and Statement of Accounts for July, 1971 to June, 1972, Accra, p.5

establishment of no fewer than 600 factories producing over 100 different commodities, those of the Seven-Year Development Plan of 1963-70 were more specific. This was because upon being impressed by the Soviet performance in development planning during his visit to Russia in 1961, Nkrumah directed the Ghanaian economic planners to copy the Soviet planning techniques as much as possible. Quantification of targets therefore became a feature of the Seven-Year Development Plan. With regard to the manufacturing sector at least three objectives were listed:

(a) First, the production of domestic substitutes for the manufactured consumer staples, especially, textiles, clothing, footwear, soap which were entirely obtained from foreign sources and cost the country large sums of foreign exchange each year but which at the same time were "technologically simple and for which the manpower and in some cases the raw materials (were) readily available in Ghana."[29]

(b) Second, the progressive processing before export of the country's agricultural and mining commodities which were at that time exported from the country mostly in their unprocessed state. The commodities mostly involved were cocoa, timber, gold, diamonds and manganese.

(c) Third, the expansion and modernization of the building materials industry in order to enable it to provide the construction industry with the necessary support in its future expansion.[30]

Concerning the attainment of some of these objectives the Seven-Year Development Plan made clear the Governments commitment :

> "Owing to the need to conserve foreign exchange, and to the present and prospective importance of these consumer goods as users of foreign exchange, the attainment of the targets for the production of staple consumer goods will be given priority over all other aspects of the industrialisation programme. It will be expected that whether the production of these commodities is taken by state or private enterprise a high degree of self-sufficiency in these goods should have been attained by 1969. It is therefore intended that before the end of 1966 there will have been put in hand enough factory projects to meet substantially all the production targets set in this field of industrialisation".31

29. Ghana Government, Seven-Year Development Plan, 1960/64 to 1969/70. Accra, 1964, p. 93.

30. Ibid.

31. Ibid. p.94

Some of the industrial targets set in the Seven Year Plan for 1969 were as follows: Cotton spinning, weaving and finishing, 22m. sq.yds; shoes (leather) 2m. pairs; soap, 35,000 tons; sugar, 100,000 tons, cocoa products, 90,000 tons; cement, 600,000 tons; plywood and veneer, 5.5m cu.ft.

The production targets quoted in the Plan were those set for public manufacturing units and so any production by the private sector would be additional. The growth rates set for the manufacturing sub-sectors can be estimated from Table 5.2 of the Plan.[32] As the targets were to be obtained at the end of a 6 year period beginning from 1963 each manufacturing sub-sector's given growth rate can be derived, on the assumption of prevailing constant prices, from the value of each sub-sector's output in 1963 and the one for 1969 as stipulated in Table 5.2 of the Plan.

During the preparation of the Seven Year Development Plan the country's foreign reserves position had already weakened considerably and the situation for reasons of economic rationality and financial prudence properly called for goals with wide margins of adjustment rather than targets which are firmly set. Once the Government's industrialisation objectives under the Plan had been made public, the rapid deterioration of the foreign reserves which occured after 1963[33] compelled Nkrumah and his Cabinet to accept a wide variety of suppliers credits from different sources in order to keep the development plan in general, but particularly its industrialization component, going. Of the 200 or so supplier credit contracts which had been signed by the end of 1965 negotiations for 95 per cent of them took place between 1962 and 1965, although the peak period for the flow of contracts occurred during 1963 and 1964. The average maturity period was 5 years and the modal for the rate of interest was 5 per cent.

In 1966 of the suppliers credit with a final maturity ranging from 1 to 12 years which IMF member countries had advanced to Ghana 157 were still outstanding and they totalled £G214.0 million. These did not include

32. Ibid. p.103

33. Vide Table 7.4

trade credits and of course other indebtedness with a final maturity below one year or above twelve years.[34] 56 of the credits (totalling £G67.1m) were with firms in the United Kingdom; 36 (totalling £G58.7m) with German firms of which the Drevici Group gave credits for 10 projects costing nearly £G37.0m;[35] 19 (totalling £G16.2m) with French firms.

Not all the projects for which the credits were advanced were in the manufacturing sector. A few were agricultural and quite a number could be categorised as infrastructural - water works, electric cables, telephone systems and an air terminal. Also there were some that simply belonged to the services sector and numbered among them were at least two hotels.

As it happened in Ghana during the 1963-66 period, when a government finds itself in a weak financial position but is committed to carry out an industrialisation programme, such a programme cannot be properly implemented as planned if in the process the government is obliged to rely on the credit support of plant and machine vendors who are more concerned with their sales promotion than with the suitability of their wares for the purchasing country.[36] Import substitution industrialisation with Contractor finance has been known to encounter difficulties as a result of one or more of the following causes.

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34. See - Central Bureau of Statistics, Analysis of Ghana's Suppliers Credit Indebtedness with IMF member countries, Accra, no date (mimeo) for details of the 157 credits. see - also Ghana Government, The Financial Statement, 1966-67, (Accra 1966), Table IX

35. For an account of how Dr. Drevici outwitted Kwame Nkrumah, see - The Economist's Article, "Ghana after Nkrumah," August 6, 1966.

36. A few Ghanaian experiences during the '60s can be instanced. A Polish sugar mill originally designed for sugar beet was sold to the Ghana Government to be used for treating sugarcane. The unsuitable parts of the machines were re-designed when their unsuitability was pointout, but at all Ghana's expense. Again the last make of a machinery for the manufacture of glass was sold to Ghana in 1963 by a German financing agency when the maker was on the point of going into liquidation. Because of difficulties in getting spare parts after the machines had been operating for a while, the glass factory had to stop production for over two years. Another case involved a French textile mill which was hurriedly sold to Ghana by a financing house after the mill had started to encounter marketing problems because it was discovered to have a serious fault.

First, projects are occasionally not properly oriented towards the physical resources that are available in the country. This leads inevitably to the use of imported raw materials.[37] Second, the techniques of production adopted do not always take into consideration the human resource endowments of the industrialising countries. As a consequence, therefore, capital intensive machines are time and again sold to capital-scarce countries with very large population. Third, the location of projects often turns out to be wrong. For political reasons the appropriate factor orientation to determine the best location for individual projects is often ignored and this not infrequently leads to high production costs.[38] Fourth, prior feasibility studies are often not carried out and several projects in consequence get suspended or completely abandoned shortly after they have been started.[39]

Where import substitution industrialisation turns into a machine sales spree and the purchasing countries find themselves acquiring factories which they had shortly before not thought of possessing, they attempt to solve

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37. See Appendix E. In 1968 the proportion of the value or imports to that of total materials used in manufacturing was more than 0.75

38. A tanning factory which was earmarked for Aveyime, a town just north of Volta estuary had its location criticised even by politicians as most unsuitable and politically influenced. The factory's major raw material was to be obtained from the very north of Ghana and its products was mostly to be sent to Kumasi.

39. A tomato and mango processing factory located at Wenchi which cost ¢2½m to construct and the machinery of which was supplied by a Yugoslav firm went into production, according to the Daily Graphic of April 27, 1972 for only 3 months after it had been completed in 1969. According to the report the reason given by the Yugoslavs managing it was that the local tomatoes and mangoes which were used contained acid and fibre respectively and could not stand longer periods after canning. This shows that no feasibility studies were carried out before the factory was constructed.

their manpower problems by resorting to "turn-key" arrangements, supplemented in some cases with factory management agreements.[40] Turn-key projects were on the increase in Ghana shortly before the Nkrumah ouster in 1966[41] and they invariably included supplementary management agreements, because it was felt that the economy was "without any previous industrial experience and therefore no pool of experienced managers from which to draw."[42]

Import substitution industrialisation undertaken to ease pressure on the balance of payments vary rarely, if ever, does so to the full value of the imported goods that are replaced. The pressure easing contribution depends on how much of the value of the domestically produced substitutes is retained at home. Usually, foreign claims on import substitution activities tend to reduce the amount of relief that such activities are meant to bring to the pressure on the balance of payments and the contributory factors include the cost of imported raw materials used in the import replacing activities, portions of remuneration remitted home by expatriate managers and technicians and the repatriation of profits by firms operating

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40. See paper entitled "Ghana's Industrial Development," (mimeo), submitted by the Ministry of Industries at the 6th Anniversary Symposium of the Ghana Academy of Sciences, in November 1965. A "turn-key project is described as one in which the contractor not only supplies the machinery and equipment but also prepares the designs, drawings, specifications, tests of goods and time schedules and in addition takes on the complete civil engineering works. Usually in turn key projects before the keys of the factory are handed over, the factory is operated for a very short period by the financial-supplier, 3 months - during which workmen are trained in how to operate the machines.

41. See - Leslie E. Grayson's "The Role of Suppliers' Credit in the Industrialization of Ghana" in Economics Development and Cultural Change, Vol.21, No.3 (April 1973) p.477 ff. and A.A. Ayida, "Contractor Finance Supplier Credit in Economic Growth" in Nigerian Journal of Economic and Social Studies, July 1965, (Also as NISER Reprint Series No.18)

42. Ghana Ministry of Industries, "Ghana's Industrial Development" op.cit.

in the private sector.[43] (More is said on the question of dependence on imported inputs in Section (viii) below).

Reliance on foreign sources for material inputs, as Ghana has tended to do, had led some of the suppliers of goods to the import replacing countries to resort to the practice of over-pricing their goods and this had had repercussions on the recipient import replacing countries in at least two ways. First, the magnitude of the intended easing of pressure on their balance of payments is reduced by the extent prices of imported inputs are inflated by the suppliers and second, other things being equal, the finished goods of the activities in the import replacing countries using the imported material inputs are placed in a less competitive position in terms of prices vis-a-vis similar imported products. Complaints of such a practice have been made in Ghana and where the offence has been found to take the form of over-invoicing by a local subsidiary of a multinational firm the intention has been interpreted as an attempt to take out of the country earnings that have been blocked because of balance of payments problems. Another explanation given for the practice of over-invoicing by some importing manufacturers is the desire to reduce the burden of the heavy taxes that are usually imposed on manufacturing activities in L.D.Cs.

A common device for easing pressure on the balance of payments is to impose high tariffs on unessential goods being imported into the country.

43. The initial investment by a foreign firm exerts no pressure on the balance of payments of the import replacing country in which the investment takes place, but repatriation of profits by the foreign firm which takes place later, however does. Tax free holidays and generous capital allowances enable foreign firms to start remitting profits home much earlier than they would have done and consequently the concessions create pressure on the balance of payments. The granting of capital allowances by a 'Government to a firm amounts to the Government contributing to the firm's capital stock but without becoming a holder of its shares. For Ghana's schedule of capital allowances for the manufacturing sector refer to Table 9.1

From the standpoint of balance of payments pressures, concessions are clearly meaningful if a firm is producing for export.

This measure quite often results in attracting the makers of such goods to jump the "tariff wall" and get established within the tariff imposing country. A wide spread adoption of this manoeuvre soon fills the country with a great many manufacturers of commodities that are regarded as unessential or are at the last stages of manufacture and require only "screw driver operations" to bring production to completion. With regard to the last category of products the value added tends to be very small.[44] In Ghana, examples of firms engaged at the last stages of the productive process include producers of ball pens, toilet rolls, tinned milk, toothpaste and dry battries. Toilet roll production has only involved the importation of very large rolls of finished toilet paper and the cutting up of these into small rolls and then putting them into imported wrappers printed with "Made in Ghana". The components of all the others are all imported finished products and manufacture consists of filling the containers with in some cases, local water added.

The supplier financed manufacturing projects which were contracted for by the Ghana Government took some time to get built and many of them were commissioned during and after 1966. Table 9.4 show the manufacturing enterprises classified by type of ownership and by nationality of owners, and also the value added co-efficients of the various groups in unit value of gross output for the period 1964-72. The co-efficients can be used to find the relative contribution of the different groups of enterprises to the growth of the manufacturing sector. From Table 9.4[a] it can be seen that, with the exception of the cooperative enterprises, the State owned enterprises as a group had the lowest percentages of value added to a unit of gross output as compared with the other groups for the years shown from 1964 to 1968. Its value added co-efficient of 52 per cent for 1964

44. See - Shu-Chin Yang, "National Policies for Import-Substitution and Promotion in Planning the External Sector: Techniques, problems and Policies by United Nations, 1967, appendix 136-159.

was lower than that of either the Joint State-private group of enterprises (58 per cent) of the private enterprises group (56 per cent). The declining trend of the groups co-efficients was more marked than that of the private enterprises group during the 1964-68 period, though closely resembling that of the Joint State-private enterprises group.

From 1970 to 1972 there was a change in relative performance of the various groups with respect to both the value added co-efficients in unit values of gross output and the trend of the yearly performance as shown by the co-efficients. With respect to the latter the figures for each of the groups showed on the whole a rising trend. The outstanding change in the situation was that not only did the State owned group achieve an improvement in their value added co-efficient figures but it also managed to show far better results than the Joint State-private enterprises group.

Table 9.4 VALUE ADDED AS A PERCENTAGE OF GROSS OUTPUT OF ENTERPRISES, 1964-72

(a) Enterprises classified by type of ownership

	1964	1966	1968	1970	1971	1972
State owned	52	45	43	47	53	51
Joint State-private	58	64	50	33	29	37
Co-operative	30	35	2	-	-	-
Private	56	64	55	56	58	57
(b) Enterprises classified by Nationality of owners						
Ghanaian	55	47	45	49	54	53
Non-Ghanaian	55	67	57	59	62	58
Mixed	55	61	50	37	35	40

Sources: Central Bureau of Statistics, Industrial Statistics 1965-66; 1966-68, 1969 and 1970-72 issues. The figures were derived from gross output and value added tables in current prices.

The private enterprises group continued to obtain the highest value added co-efficient figures amongst the different groups.

The value added co-efficient figures for the Joint State-private enterprises group were the lowest recorded by any group for the 1970-72 period and showed a sharp reduction in the group's figures prior to 1970. Many factors could have contributed to the fall from the value added co-efficient figures of not less than 50 per cent before 1970 and the low figures of between 29 and 37 per cent achieved during the 1970-72 period. Among the factors can be mentioned, first, the use of more costly inputs as substitutes for usual supplies which were becoming more difficult to obtain from traditional sources and second, the establishment of new joint State-private enterprises that operate at the finishing stages of consumer goods production.[45] With regard to the State owned group it should be noted that there was considerable re-organisation with respect to ownership and management after the 1966 change of government and this must have contributed to the improvement in the value added co-efficients of the group.

Table 9.4(b) shows value added co-efficients of enterprises classified by nationality of owners. As can be seen from its figures, throughout the 1964-72 period the non-Ghanaian enterprises as a group had the highest value added co-efficients. The figures for the Ghanaian enterprises group were on the decline from 1964 to 1968 i.e. from 55 per cent to 45 per cent but after that there occured a rising trend in the figures. The performance of the mixed enterprises group was not impressive. The group's value added co-efficient from its highest record of 61 per cent in 1966 steadily fell to a low level of 35 per cent in 1971. In 1972,

45. The industrial statistics for the period 1970-72 were published as late as March 1980. After the publication attempts at getting more information from official sources on the performance of the individual enterprises in joint State-private group did not prove successful.

however, it increased to 40 per cent. The steady decline in the value added co-efficients of the group may probably have been caused during the process of growth of new manufacturing activities that had lower co-efficients of value added. It would then imply recourse to manufacturing locally on licence well-known foreign branded goods which would usually result in heavy dependence on imported material in-puts.[46] Rapid industrialisation in less developed countries which generally takes the form of initiating with very little or no adaptation what obtains elsewhere involves the widespread development of manufacturing activities with low value added co-efficients.

It is worth making a few observations on how the value added co-efficients of Ghanaian private enterprises compared with those of the State and non-Ghanaian private enterprises. In Table 9.4(b) the term "Ghanaian" embraces both State and private enterprises. During the 1967-69 period the annual value added co-efficients of the Ghanaian enterprises taken as a group were either higher than or equal to those of the State enterprises taken by themselves as shown in Table 9.4.(a) It can therefore be deduced that the value added co-efficients of the Ghanaian private enterprises were higher than or at least equal to those of the State enterprises. Similarly, since the private enterprises specified in Table 9.4(a) which include both Ghanaian as well as non-Ghanaian, had value added co-efficients which were in each year lower than those of the non-Ghanaian enterprises shown in Table 9.4(b) as a group, it can be inferred that the lower figures for the private enterprises shown in Table 9.4(a) were brought about by the comparatively low figures of the Ghanaian enterprises taken as a group. In other words, the value added co-efficients of the Ghanaian

46. For an account of similar problems also associated with import substitution industrialisation in Nigeria a neighbouring country with similar conditions, see Peter Kilby, Industrialisation in an Open Economy, Nigeria, 1945-66, CUP. 1969, passim.

private enterprises were lower than those of the non-Ghanaian private enterprises but higher than those of the State owned ones.[47]

(vi) The development of the major manufacturing sectors

(a) Introduction: Whereas in 1958 and 1959 statistical information on industrial activities related to enterprises employing five or more persons, the Central Bureau of Statistics restricted the coverage of their statistical information as from 1962 to industrial enterprises engaging 30 or more persons. For that reason in the case of activities which are usually carried out in enterprises that tend to be small scale, those left uncovered may be in the majority. This is true of the food manufacturing group which in Ghana is made up of units which use unsophisticated equipment and engage very few hands. Bread baking is an easy example.

The analysis which follows will, because of availability of statistical data, deal only with enterprises engaging 30 persons or more. Table 9.5 shows the value of gross output of manufacturing industries in current prices from 1962 to 1972. Table 9.6 shows the gross output over the same period but at constant 1960 prices. It has been derived from Table 9.5 by using as the deflator the Central Bureau of Statistics gross domestic product price index with 1960 as the base year. With the same deflator Table 9.8 showing value added of manufacturing at constant 1960 prices has been derived from Table 9.7 which shows the manufacturing sector's value added at current prices for the period 1962-72.

(b) Growth rates of manufacturing sub-sectors: The performance of the larger Ghanaian manufacturing enterprises in real terms is shown in Table 9.8. In 1962 the total value added at constant 1960 prices was ₵39.0m. and by 1972 it had increased to slightly over ₵114.0 million by nearly tripling. The increase also amounted to an average compound annual growth

47. With very restrictive import licensing or high tariffs resulting in high effective rates of protection some of the activities which may appear to have positive, though low, value added may at world market prices be found to have "negative value added". See Stephen E. Guisinger's Negative Value Added and the Theory of Protection in Quarterly Journal of Economics, August, 1969 pp.415-33 and A.H.H. Tan, Differential Tariffs, Negative Value added and the Theory of Effective Protection in American Economic Review, 1970 pp.107-116

rate of just over 11.0 per cent. For the period 1962 to 1966, however, the average annual real growth rate of value added was 7.0 per cent and for the period 1966 to 1972 slightly over 13.0 per cent. The corresponding growth rate figures of gross output of manufacturing activities at constant prices for the entire period (1962-72) was a little over 12.0 per cent for the two sub-periods were 7.0 per cent, and 16.0 per cent respectively. It is, however, worth noting that the average annual rate of growth recorded for the period 1970-72 were very low, 4.4 per cent, for value added at constant prices and 3.4 per cent for gross output at constant prices.

In 1962 the gross domestic product at 1960 constant prices was ₵975.4 million. In that year the value added of large-scale manufacturing units at the same constant prices was, as stated above, ₵39.0 million, which was equal to 4.0 per cent of G.D.P. At constant prices the G.D.P reached ₵1,099.8 million in 1972, indicating an average annual growth rate of 1.2 per cent for the period. During the same time span the value added at constant prices of large-scale manufacturing activities increased from ₵39.0 million to just over ₵114.0 million at a much higher average annual growth rate of slightly over 11.0 per cent. As a consequence, therefore, the share of value added of large-scale manufacturing enterprises in G.D.P. in real terms increased from 4.0 per cent in 1962 to slightly over 10.0 per cent in 1972. This pronounced increase in the share of large-scale manufacturing in the G.D.P. can be interpreted as a clear indication of import substitution industrialisation in Ghana.

(c) <u>Changes in the structure of the manufacturing sector</u>: The rates of growth of the major manufacturing sectors have neither been even nor equal. As shown in Table 9.9 which presents the annual percentage distribution of value added of large-scale manufacturing industries from 1962 to 1972

Table 9.5 VALUE OF GROSS OUTPUT OF MANUFACTURING INDUSTRIES AT CURRENT PRICES, 1962–72 ¢'million

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	4.19	4.33	4.71	9.62	10.79	18.52	23.25	35.09	73.70	75.23	108.12
Beverages	21	10.29	13.89	14.26	17.72	21.48	18.49	24.42	25.29	32.86	43.70	45.63
Tobacco	22	12.73	14.56	16.46	18.04	20.50	20.99	25.90	25.50	26.10	27.89	34.20
Textiles	23	0.33	1.74	2.55	3.97	7.00	15.29	25.89	48.45	68.85	76.86	83.41
Clothing & Footwear	24	1.69	3.32	4.37	5.84	7.06	12.72	21.63	19.16	9.96	7.60	9.81
Wood	25	20.39	20.17	21.59	23.36	22.71	24.08	24.09	31.92	34.05	32.20	43.94
Furniture & Fixtures	26	2.53	2.79	3.48	3.06	2.90	2.34	2.44	2.63	3.19	3.55	3.71
Paper/Paper products	27	0.25	0.85	0.98	1.42	2.81	4.98	6.19	7.46	10.69	4.43	7.90
Printing, Pub. & Allied Industries	28	2.45	4.09	3.12	3.38	5.44	5.62	6.71	6.98	7.67	9.53	11.52
Leather	29	0.54	0.44	0.46	0.39	0.42	0.48	0.66	0.78	1.30	1.26	1.55
Rubber	30	0.54	0.53	1.44	1.99	1.53	0.25	0.24	1.39	10.57	12.77	17.23
Chemicals	31	5.65	10.06	13.47	11.46	16.51	19.99	21.52	27.92	26.65	32.45	30.01
Petroleum	32	-	2.04	4.93	5.13	5.22	6.06	6.38	6.54	33.61	38.31	39.71
Non-metallic minerals	33	0.96	1.31	1.09	1.43	2.96	3.39	9.75	12.82	14.44	16.56	16.39
Basic-metal industries	34	0.53	0.54	0.70	0.94	0.86	1.50	1.08	1.23	57.61	57.43	77.57
Metal products	35	5.74	7.15	7.81	6.51	7.03	8.38	9.85	13.14	14.51	19.36	16.88
Non-electrical Machinery	36	-	-	-	-	-	-	-	0.03	0.28	0.25	0.30
Electrical machinery	37	-	-	-	-	0.67	1.48	2.96	3.64	6.29	7.20	8.94
Transportation equipment	38	2.15	4.25	3.83	4.31	4.77	5.42	7.59	6.05	10.92	19.36	13.84
Miscellaneous	39	0.41	0.98	1.78	1.56	1.35	1.27	2.34	3.22	0.92	1.76	1.76
Total		71.37	93.05	107.03	120.13	142.01	171.25	222.89	279.22	444.35	487.70	572.42

Source: Industrial Statistics, 1962-64, 1965-66, 1966-68, and 1969, Central Bureau of Statistics, Accra
Economic Survey for 1964, Central Bureau of Statistics, Accra
Industrial Statistics for 1970 to 1972, obtained from Central Bureau of Statistics, Accra.

Table 9.6 VALUE OF GROSS OUTPUT OF MANUFACTURING INDUSTRIES AT CONSTANT PRICES, 1962-72, ¢'million

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	3.99	3.87	3.80	6.63	6.70	11.79	12.92	17.54	34.93	33.89	42.23
Beverages	21	9.80	12.40	11.50	12.22	13.34	11.77	13.57	12.64	15.57	19.68	17.82
Tobacco	22	12.12	13.00	13.27	12.44	12.73	13.37	14.39	12.75	12.37	12.56	13.35
Textiles	23	0.31	1.55	2.06	2.73	4.35	9.74	14.38	24.22	32.63	34.62	32.58
Clothing & Footwear	24	1.61	2.96	3.52	4.03	4.38	8.10	12.02	9.58	4.72	3.42	3.83
Wood	25	19.42	18.01	17.41	16.11	14.10	15.34	13.38	15.96	16.14	14.50	17.16
Furniture & Fixtures	26	2.41	2.49	2.81	2.11	1.80	1.49	1.36	1.31	1.51	1.60	1.45
Paper/paper products	27	0.24	0.76	0.79	0.98	1.75	3.17	3.44	3.73	5.07	1.99	3.08
Printing, Publishing & Allied industries	28	2.33	3.65	2.52	2.33	3.38	3.58	3.73	3.49	3.63	4.29	4.50
Leather	29	0.51	0.39	0.37	0.27	0.26	0.31	0.37	0.39	0.62	0.58	0.61
Rubber	30	0.51	0.47	1.16	1.37	0.95	0.16	0.13	0.69	5.01	5.75	6.73
Chemicals	31	5.38	8.98	10.86	7.90	10.25	12.73	11.96	13.96	12.62	14.62	11.72
Petroleum	32	-	1.82	3.97	3.53	3.24	3.86	3.54	3.27	15.93	17.26	15.51
Non-metallic minerals	33	0.91	1.17	0.88	0.99	1.84	2.16	5.42	6.41	6.84	7.46	6.40
Basic-metal industries	34	0.50	0.48	0.56	0.65	0.53	0.91	0.60	0.61	27.40	25.87	30.30
Metal products	35	5.47	6.38	6.30	4.49	4.37	5.34	5.47	6.57	6.88	8.72	6.59
Non-Electrical Machinery	36	-	-	-	-	-	-	-	0.01	0.01	0.11	0.12
Electrical Machinery	37	-	-	-	-	0.42	0.94	1.64	1.82	1.73	3.24	3.49
Transportation equipment	38	2.05	3.79	3.09	2.97	2.96	3.45	4.22	3.02	2.87	8.72	5.41
Miscellaneous	39	0.39	0.83	1.44	1.08	0.84	0.81	1.30	1.61	1.53	0.79	0.69
Total		67.23	83.05	86.21	82.83	88.19	109.07	123.84	139.58	208.01	219.67	223.57

Source: From Table 9.5. The values in constant prices were derived by using the GDP price index of the Central Bureau of Statistics with 1960 as the base year.

Table 9.7 VALUE ADDED OF MANUFACTURING INDUSTRIES AT CURRENT PRICE, 1962-72 ¢'million

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	1.62	1.66	2.14	3.11	2.58	3.00	6.69	12.96	24.44	22.08	45.52
Beverages	21	6.43	8.33	8.70	11.15	15.34	13.69	18.07	19.09	22.98	34.25	32.00
Tobacco	22	9.94	11.71	13.09	14.63	18.01	17.70	21.55	21.34	19.56	22.83	27.39
Textiles	23	0.07	0.37	0.62	2.02	3.78	9.03	11.94	15.18	25.18	30.10	32.09
Clothing & Footwear	24	0.53	1.42	2.02	1.82	2.60	6.65	10.73	9.01	5.24	3.94	4.41
Wood	25	12.28	12.10	12.95	14.91	14.69	13.00	8.87	15.39	18.34	16.91	25.68
Furniture & Fixtures	26	1.56	1.62	0.90	1.60	1.72	1.26	1.28	1.34	1.65	2.00	2.05
Paper/Paper products	27	0.13	0.52	0.61	0.71	1.42	2.67	3.27	5.96	4.94	1.97	4.08
Printing, Publishing, & Allied Industries	28.	1.55	2.83	2.15	2.04	3.99	4.38	5.18	4.22	4.58	5.54	6.10
Leather	29	0.28	0.18	0.18	0.16	0.17	0.19	0.29	0.38	0.51	0.40	0.81
Rubber	30	0.34	0.42	0.61	1.15	0.81	0.17	0.16	0.94	6.62	8.24	10.71
Chemicals	31	2.86	4.21	5.52	5.37	7.76	8.36	7.62	11.27	8.58	11.85	10.04
Petroleum	32	-	1.88	4.53	4.15	4.35	5.42	5.37	6.01	32.73	37.06	38.71
Non-metallic minerals	33	0.48	0.62	0.52	0.83	1.47	1.70	3.89	5.54	5.45	3.36	5.24
Basic-metal Industries	34	0.30	0.27	0.15	0.12	0.26	0.86	0.46	0.39	25.25	27.04	30.25
Metal products	35	1.60	1.76	2.47	2.53	2.97	3.24	4.33	4.87	6.29	9.44	6.48
Non-Electrical machinery	36	-	-	-	-	-	-	-	0.02	0.23	0.15	0.18
Electrical machinery	37	-	-	-	-	0.29	0.56	1.01	1.42	2.83	2.83	4.56
Transportation equipment	38	0.88	1.17	1.12	2.39	2.16	3.92	3.20	2.34	5.69	8.07	6.41
Miscellaneous	39	0.11	0.49	0.87	0.82	0.73	0.69	0.98	2.23	0.60	0.88	0.86
Total		41.01	52.06	59.16	69.51	85.10	96.49	114.89	139.90	222.09	251.01	295.57

Source: C.B.S. Industrial Statistics, 1962-64, 1965-66, 1966-68, and 1969 issues.
Data for 1970-72 were obtained from Central Bureau of Statistics, Accra.

Table 9.8 VALUE ADDED OF MANUFACTURING INDUSTRIES AT CONSTANT PRICES, 1962-72, ₵'million

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	1.54	1.48	1.73	2.14	1.60	1.91	3.72	6.48	11.58	9.95	17.78
Beverages	21	6.17	7.44	7.02	7.69	9.53	8.72	10.04	9.55	10.89	15.43	12.50
Tobacco	22	9.45	10.46	10.56	10.09	11.19	11.[illegible]	11.97	10.67	9.27	10.28	10.70
Textiles	23	0.07	0.78	0.50	1.39	2.35	5.75	6.65	7.59	12.03	13.56	12.53
Clothing & Footwear	24	0.50	1.27	1.63	1.26	1.61	4.24	5.96	4.51	2.48	1.77	1.72
Wood	25	11.70	10.80	10.44	10.28	9.12	8.28	4.93	7.70	8.79	7.62	10.03
Furniture & Fixtures	26	1.49	1.45	0.73	1.10	1.07	0.80	0.71	0.67	0.78	0.90	0.80
Paper/paper products	27	0.12	0.46	0.49	0.49	0.[illegible]	1.70	1.82	2.98	2.34	0.89	1.59
Printing, Publishing & Allied Industries	28	1.48	2.53	1.73	1.41	2.48	2.79	2.88	2.11	2.17	2.50	2.38
Leather	29	0.27	0.16	0.15	0.11	0.11	0.12	0.16	0.19	0.24	0.18	0.32
Rubber	30	0.32	0.38	0.49	0.79	0.50	0.11	0.09	0.24	3.14	3.71	4.18
Chemicals	31	2.72	3.76	4.45	3.70	4.82	5.32	4.23	5.64	4.07	5.34	3.92
Petroleum	32	-	1.68	3.65	2.86	2.70	3.45	2.98	3.01	15.51	16.69	15.12
Non-metallic minerals	33	0.48	0.55	0.42	0.57	0.91	1.08	2.16	2.77	2.58	1.51	2.05
Basic metal Industries	34	0.29	0.24	0.12	0.08	0.16	0.55	0.26	0.20	11.97	12.18	11.82
Metal products	35	1.52	1.57	1.99	1.74	1.84	2.06	2.41	2.44	2.98	4.25	2.53
Non-Electrical machinery	36	-	-	-	-	-	-	-	0.02	0.11	0.07	0.07
Electrical Machinery	37	-	-	-	-	0.18	0.36	0.56	0.71	1.34	1.27	1.78
Transportation equipment	38	0.84	1.04	0.90	1.65	1.34	2.50	1.78	1.17	2.70	3.64	2.50
Miscellaneous	39	0.10	0.44	0.70	0.57	0.45	0.44	0.54	1.12	0.28	0.40	0.34
Total		39.06	46.49	47.70	47.92	52.84	61.45	63.83	69.77	105.25	112.14	114.66

Source: From Table 9.7 The values in constant prices were derived by deflating with the GDP price index of the Central Bureau of Statistics which has 1960 as the base year.

classified according to the ISIC major groups code,[48] the principal manufacturing sub-sectors in Ghana in 1962 were the wood, beverages, tobacco industries which were 30.0 per cent, 15.8 per cent, and 24.2 per cent respectively of total large-scale manufacturing value added. By 1972, the shares of those sub-sectors had decreased appreciably and the new sectors that had become the principal manufacturing industries were food, textiles, petroleum and basic metals with 15.5 per cent, 10.9 per cent, and 13.2 per cent, and 10.3 per cent, respectively of total value added. The beverages sub-sector with 10.9 per cent of total value added was still one of the principal industries in 1972, but its share of the total was much lower than its 15.8 per cent share in 1962, let alone its best share performance of 18.0 per cent in 1966.

In a study of development patterns among countries and over time, Hollis Chenery and Lance Taylor found that the growth patterns of countries are influenced by such factors as the size of population, resource endowment, trading opportunities and the level of income.[49] The first three factors are considered to give rise to inter-country differences and the last to changes to internal economic structure. On the basis of size and resources, Chenery and Taylor ascertained three major development categories: large countries (L) with populations of 15 million and over; small industry-oriented countries (SM) generally agricultural resource poor countries with population below 15 million; and small primaty-oriented countries (SP) which are agriculturally resource rich.

By the Chenery/Taylor classification Ghana is a small primary-oriented country and like the other countries so categorised primary production (agriculture and mining) declines over slowly and its value

48. The ISIC numbers and grouping were changed by the United Nations in 1970, but in order to have uniformity the pre-1970 code has been used for the years 1970 to 1972.

49. Hollis B. Chenery and Lance Taylor, "Development Patterns; Among countries and Over-time" in Review of Economics and Statistics, November 1968 pp.391-416. This article is much more refined in approach than H.B. Chenery's earlier article in "Patterns of Industrial Growth" in American Economic Review, September 1960, pp. 624-654.

Table 9.9 ANNUAL PERCENTAGE DISTRIBUTION OF VALUE ADDED OF MANUFACTURING INDUSTRIES IN CONSTANT (1960) PRICES, 1962-72

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	3.9	3.2	3.6	4.5	3.0	3.1	5.8	9.9	11.0	8.9	15.5
Beverages	21	15.8	16.0	14.7	16.0	18.0	14.2	15.7	13.7	10.3	13.7	10.9
Tobacco	22	24.2	22.5	22.1	21.0	21.1	18.3	18.8	15.3	8.8	9.2	9.3
Textiles	23	0.2	1.7	1.0	2.9	4.4	9.3	10.4	10.9	11.4	12.1	10.9
Clothing & Footwear	24	1.3	2.7	3.4	2.6	3.0	6.9	9.3	6.5	2.4	1.6	1.5
Wood	25	30.0	23.2	21.9	21.5	17.3	13.5	7.7	11.0	8.3	6.8	8.7
Furniture & Fixtures	26	3.8	3.1	1.5	2.3	2.0	1.3	1.1	0.9	0.7	0.8	0.7
Paper/Paper Products	27	0.3	1.0	1.0	1.0	1.7	2.8	2.8	4.3	2.2	0.8	1.4
Printing & Publishing etc.	28	3.8	5.4	3.6	2.9	4.7	4.5	4.5	3.0	2.1	2.2	2.1
Leather	29	0.7	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.3
Rubber	30	0.8	0.8	1.0	1.6	0.9	0.2	0.1	0.3	3.0	3.3	3.6
Chemicals	31	7.0	8.1	9.3	7.7	9.0	8.6	6.6	8.0	3.9	4.8	3.4
Petroleum	32	-	3.6	7.7	6.0	5.1	5.6	4.7	4.3	14.7	14.9	13.2
Non-metallic minerals	33	1.2	1.2	0.9	1.2	1.7	1.7	3.4	3.9	2.5	1.3	1.8
Basic metal industries	34	0.7	0.5	0.3	0.2	0.3	0.9	0.4	0.3	11.4	10.9	10.3
Metal products	35	3.9	3.4	4.2	3.6	3.5	3.4	3.8	3.5	2.8	3.8	2.2
Non-Electrical machinery	36	-	-	-	-	-	-	-	-	0.1	0.1	0.1
Electrical machinery	37	-	-	-	-	0.3	0.6	0.9	1.0	1.3	1.1	1.6
Transportation equipment	38	2.1	2.2	1.9	3.4	2.5	4.1	2.8	1.7	2.6	3.2	2.2
Miscellaneous	39	0.3	0.9	1.5	1.2	0.9	0.7	0.8	1.6	0.3	0.3	0.3
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Based on Table 9.8 **Note:** Because of rounding the details do not always add up exactly to 100 exceeds that of industry (manufacturing and construction) up to about $800 income level.[50] In 1964, when most of the contractor financed projects were being negotiated for, Ghana had a population of about 7 million and a per capita GDP of $247.[51] Levels of income were noted by Chenery and Taylor to influence changes not only in the relative shares of the three major sectors of the economy - primary, industry and services - but also in the relative shares of the sub-sectors of the manufacturing industry, for example, as shown by ISIC code numbers in Tables 9.5 to 9.10. The sub-sectors are described - either as early, middle or late industries according to the stage at which they make their main contribution to the rise of industry.[52] Early industries comprise food, beverages, tobacco, textiles, and leather goods; Middle industries include non-metallic minerals, rubber, wood products, chemicals and petroleum refining and, Late industries consist of clothing printing, basic metals, paper and metal products.

In terms of the Chenery/Taylor estimates, Ghana as a small primary-oriented country with a per capita income of $247 in 1964 should then have had an industrial sector (with construction included) equal to 15 per cent of G.N.P. Fig.3 of Chenery/Taylor's article illustrates this). The manufacturing sector alone, as shown by Fig.6(c) of the article should then be equal to 10 per cent of G.N.P. From the growth patterns of the individual sub-sectors of the manufacturing industry, derived by Chenery/ Taylor from regression analysis based on disaggregated data,[53] the structure of Ghana's manufacturing sector should then have assumed the form shown on

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50. Hollis Chenery and Lance Taylor op.cit. p.400

51. For the per capita income figure see Andrew M. Kamarck, The Economics of African Development. Pall Mall Press, London, 1967 pp.250-51

52. H. Chenery and L. Taylor, op.cit. 409

53. See - Chenery and Taylor op.cit. Fig.5(a) to (1) on pp.410-411 for the growth patterns of the sub-sectors of the manufacturing sector.

the left-hand side, with the actual structure as portrayed in Table 9.9 shown on the right:

Structure according to Chenery/ Taylor Predictive Formula			Actual Structure in Ghana in 1964
Early industries	52%	of total manufacturing	Early Industries 42%
Middle industries	17%	-do-	Middle industries 42%
Late industries	31%	-do-	Large industries 16%

By differential rates of growth of the sub-sectors the manufacturing sector acquired by 1972 the following structure: early industries 47 per cent, middle industries 31 per cent, and late industries 22 per cent. A comparison between the actual and the theoretical structures of the manufacturing sector in 1964 shows that the early industries were not quite as developed as they should have been by then. They constituted 42 per cent instead of the expected 52 per cent of the total of manufacturing value added.

By 1972 the percentage share of the early industries had increased to 47 per cent. This was due to the increased output of food (ISIC code.20) after the food factories acquired by the State by means of suppliers credit had gone into production.[54]

Because most of the large-scale manufacturing enterprises sponsored by the State at the initial stages of Ghana's industrialisation engaged in making wood products(primarily because the country is well endowed with forest resources), by 1964 the share of the middle industries had become far larger than it should have been by the Chenery/Taylor indicative pattern, ie. 42 per cent instead of 17 per cent. From 1964 to 1972 the share of the middle industries fell from 42 per cent to 31 per cent. An examination of

54(a) Large-scale production of beverages and tobacco in the early '60s was by expatriate enterprises only and (b) the marked increase in large-scale food production which took place from 1968 was mainly the result of the activities of the State-owned enterprises acquired through suppliers' credit.

Table 9.8 shows that in real terms the middle industries did not significantly increase their output in terms of value added from 1964 to 1972 and, with the other two categories expanding, their share consequently fell.

With respect to the late industries it is implied by the Chenery/Taylor pattern that by 1964 this group of industries had been far less developed in Ghana than is indicated by the development pattern for small primary countries. The significance of this point lies in the fact that the group contains the important economic activities of the manufacturing of basic metals, paper and paper products, metal products, including electrical and non-electrical goods, and transport equipment. In 1964 the 16 per cent share of this group was only slightly more than half its attainable share according to the Chenery/Taylor growth pattern. By 1972 however, the group's share had increased to 22 per cent, (due principally to the processing activities of the enclave Volta Aluminium Company) this figure was still far below the attainable 31 per cent for 1964. The 22 per cent achieved in 1972 was even less satisfactory when account is taken of the fact that the per capita income had then increased to around $310.[55]

In terms of the Heckscher-Ohlin theorem in the context of international trade the preponderant share of the middle industries in Ghana's manufacturing activities can be said to be in order in view of its comparatively abundant forest resources, but the same theoretical consideration leads to the conclusion that the share of the early industries is far smaller than it should be in view of the available agricultural resources. The processing of cocoa and other vegetable products is still far too small when compared with the output of the agricultural sector.

Concerning the individual sub-sectors it is worth noting that from 1962-1972, the share of leather and leather products industries in total manufacturing was only half of what the Chenery/Taylor pattern suggests.

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55. IMF-IBRD, Finance and Development, Vol.10, No.3 (March,1973) p.27
The Stated Figure is for 1970

This was probably due to the fact that skins and hides were scarce in the country because of the under-development of the country's cattle industry. On the other hand, the share of the manufacture of rubber products as from 1970 was more than double the 1.3 per cent indicated by the Chenery/Taylor pattern.

The Chenery/Taylor development patterns are based on the averages of the statistical measures of selected economic variables of the countries that were chosen by Chenery and Taylor for their study; but the development experience of a particular country may differ greatly from the pattern which Chenery and Taylor obtained for the country group (L, SM or SP) to which it typologically belongs, simply because of the peculiar features of its resource endowment in terms of magnitude and composition.

As mentioned already, Ghana is rich in forest resources which by 1964 were being greatly exploited and that mostly accounted for the high percentage of the "middle industries" group. In words this group became Ghana's "early industries" group.

(vii) The cost of Ghana's industrialisation: Industrialisation is undertaken by many less developed countries because it is supposed to provide certain benefits among which can be counted relief from balance of payments problems, avoidance of hardships created by inadequate supplies of manufactured goods from abroad during times of war, provision of balanced development to economies that are mainly agricultural and again securing an increase in foreign exchange earnings through the export of partly or fully processed products instead of in their raw state.[56]

56. The first two benefits are two of the four objectives of import substituting industrialisation as given by A.O. Hirschman in his article "The Political Economy of Import-substituting Industrialisation in Latin America" The Quarterly Journal of Economics, February 1968, pp.5 The other two objectives are the growth of domestic /demand for manufactured goods as a result of rising incomes and industrialisation per se - as a symbol of national prestige. For balanced growth view see - W.A. Lewis "The Theory of Economic Growth, pp. 276-83

In the Ghanaian experience the costs have resulted from the following factors: (a) heavy dependence on imports for raw materials and spare parts, not to mention capital equipment, and (b) the not infrequent acquisition of plants and machinery without a satisfactory prior consideration of the following: the suitability of size in relation to the existing markets and how capital intensive the productive process may be in view of the available labour supply.

(a) Heavy dependence on imported inputs: Because of the haste with which the industrialisation programme was carried out, Ghana's manufacturing sector has turned out to be one that heavily relies on imported supplies of raw materials, intermediate goods and spare parts. Even in the case of enterprises which are being operated efficiently the high foreign exchange cost of the heavy dependence on imported inputs has minimised considerably the gains that could have been derived from the industrialisation programme for the strengthening of the balance of payments position.

According to the Bank of Ghana in the case of raw materials alone, the amount imported for the use in 1969 by the manufacturing sectors amounted to about 35 per cent of the value of the sector's gross output. Further, as can be seen from Appendix E in 1968 in some manufacturing activities the cost of imported material inputs (i.e. raw materials and components) amounted to 50 per cent or more of the total value of materials used by many sub-sectors.

Dependence on imported material inputs has been made attractive by the Government's own tariff policy (see- Capital Investment Act, 1963) relating to the importation of certain categories of industrial inputs. As Power has observed:

"... an import substitution bias in development strategy, when accompanied as is, I think, typical - by relatively liberal import policies with respect to "essential" imports (both in the form of inputs for domestic industries and special categories of consumption goods), can create a rather extreme distortion of incentives away from the pattern that would result from free markets. Moreover, the direction appears to be unfortunate in that it particularly discourages

> export expansion and backward linkage import substitution, one or both of which is crucial to sustained industrial growth ...." 57

Import substitution, as Helleiner has pointed out, is undertaken not only with respect to manufacturing products but also with respect to agricultural products and services.[58] In many cases it will be in the interest of developing countries embarking on industrialisation to grow and use their own raw materials where they can successfully do so. In other words, it will be profitable for them to import substitute in the agricultural sector and then link the manufacturing activities already established backward to the agro-import substitution activities. In Ghana's case it would be beneficial to it to produce its own palm oil for its soap industry, cotton for its textile mills and hides and skins for its leather industry.[59]

(b) Under-utilisation of capacity in general:[60] Many of the manufacturing units acquired by the State during the '60s have been characterised by under-utilisation. The reasons for this are varied. In one or two cases

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57. John H. Power, "Import substitution as an Industrialisation Strategy," in "The Philippine Economic Journal, Vol.V, No.2, 1966, p.174 on "backward linkage" see - A.O. Hirschman, The Strategy of Economic Development, op.cit. pp. 98-117

58. G.K. Helleiner, International Trade and Economic Development, Penguin Books, 1972. p.96

59. In 1974 the Ghana Government launched an "Operation Feed Your Industries" by means of which the local manufacturing enterprises were encouraged to domestically grow, where possible, their required raw materials.

60. Capacity is here defined as the maximum output which can be produced with a given capital stock. As is usual, desired output is less than capacity. So

$$\bar{Y}_i = \bar{r}C_i \text{ with } \quad 0 \quad \bar{r} \quad 1,$$

and where C_i = capacity in period i and

$\bar{Y}_i$ = desired output in period i.

Under-utilisation of capacity is said to occur when realised (r) is less than desired $(\bar{r})$, i.e. $(r) < (\bar{r})$

Similarly, if $\bar{K}_i$ = given (desired) capital stock then capital-output ratio can be defined as - $\bar{K}_i/\bar{Y}_i$

A given capital stock can be used by means of 1, 2, or 3 shift working. Estimate of under-utilisation of capital stock depends on the shift working used, whether 1, 2, or 3. See Table 9.10.

Table 9.10 UNDER-UTILIZATION OF CAPACITY IN SELECTED MANUFACTURING INDUSTRIES IN GHANA ON ACTUAL SHIFT WORKING AND ON 3-SHIFT WORKING BASES - 1970

INDUSTRY	No. of Firms	Average No. of Shifts	Average Under-utilization percentage	Under-Utilization on the basis of 3-shifts
1. Processing and packing of raw tobacco leaves (fermentation)	2	1.5	20.70	60.35
2. Spinning, weaving & finishing of other textiles	11	1.7	21.20	55.35
3. Manufacturing of wearing apparel except footwear	14	1.3	45.06	76.19
4. Manufacturing of articles of pulp, papers/paper boards	2	2.5	79.28	82.73
5. Furniture industry	14	1.0	28.97	76.32
6. Printing industry	10	1.1	5.53	65.36
7. Processing of natural raw rubber	3	1.7	25.65	57.87
8. Manufacturing of glass and glass products	2	2.0	23.82	49.21
9. Aluminium ware	4	2.0	46.87	64.58

Note: For the concept of underutilization see footnote 60.

Source: Management Development and Productivity Institute, Utilization of Installed Capacity in Ghanaian Manufacturing Industry. Accra, 1974, Table III it is a question of size; the manufacturing units have proved to be too big for the existing local markets. This is particularly true of the Kumasi shoe factory which is big enough to cater for the whole West African market. In Table 9.10 is shown the extent of un-utilized capacity identified by the Ghana Management Development and Productivity Institute (M.D.P.I.) in nine of the Ghanaian manufacturing sub-sectors it investigated in 1970. Among the principal causes found by the MDPI for the under-utilization of capacity were shortages of raw material supplies, lack of demand, unavailable high and middle-level technical and managerial personnel, and lack of adequate working capital.[61] Shortages of supplies of raw materials from abroad which issued from foreign exchange controls and quantitative restrictions of imports were claimed to be the chief cause of under-utilisation of capacity, especially, among the import substitution industries. Either singly or in combination the above factors have given rise to high cost of production in many industries.

One of the reasons why many developing countries engage in import substituting activities is to save foreign exchange. So from the account given above it is pertinent to ask how far import substitution manufacturing in Ghana has helped in either earning or saving foreign exchange for the country. One way of doing so is by adopting the concept of "domestic resource cost" which is influenced by and can be used to determine the efficiency of an economic activity. It reflects the opportunity cost of domestic resources used in saving (or earning), say, a dollar or a pound sterling of foreign exchange by producing a commodity

61. Ghana Management and Productivity Institute (MDPI) <u>Report of the Research Project on Utilization of installed capacity in Ghanaian Industry</u>, Accra. 1974

domestically instead of importing it.[62]

During the 1967-68 period the cost in local currency of the domestic resources used by Ghanaian manufacturing industries in import substitution activities was studied by W.F. Steel.[63] The study was based on the operations of 41 industrial units selected from the various manufacturing sub-sectors. The then prevailing official exchange rate of one US$ to ¢1.02 was used as the basis for estimating the cost of usage of domestic resources in local currency regardless of whether or not the cedi was overvalued. Steel's findings regarding efficient and inefficient firms where allowance was made for capital consumption by depreciating capital stock by the straight-line method at the rate of 15 per cent a year, are shown in Table 9.11. Only 15.4 of the industrial units surveyed were found to be efficient in the sense that their DRC was below the official exchange rate and that their products would have been able to compete with imported goods without the high tariffs and the import licensing system.

Units which used resources of ¢1.53 in order to save one dollar (DRC ¢1.53 to US$.1) were rated as inefficient and 74.4 per cent of the industrial units were in this category. Units with DRC values in between were left unclassified.[64] As can be seen from Table 9.11 20.5 per cent of the firms included among the inefficient ones, produced at a net loss in foreign exchange.

62. For one of the earliest applications of the concept of "domestic resources cost", see Anne O. Krueger, "Some Economic Costs of Exchange Control", "The Turkish Case" in the Journal of Political Economy, 1966 pp.466-80 For a formula for evaluating domestic resource cost see - Appendix F. The formula was first advanced by Michael Bruno in his paper entitled "The Optimal Selection of Export-promoting and Import-substituting Projects", in Planning the External Sector: Techniques, Problems and Policies, published by the U.N. 1967

63. W.F. Steel, "Import substitution and Excess Capacity in Ghana" in Oxford Economic Papers, July, 1972, pp. 212-40

64.(a) Steel mentions the fact that it might be considered too early to assess the efficiency of Ghanaian manufacturing units during the 1967-8 period as they could be claimed at that time to be still infant industries. The aspect of his study of interest to us is effect the trade policies then pursued had on the efficient use of resources. (b) The cost of domestic resources used in import substitution projects can be assessed with respect to foreign exchange alone; but such a consideration will be not of other benefits such as employment generated by the project, linkage and multiplier effects and the learning and innovative effects. (c) By means of regression analysis Steel (Table VIII op.cit) found that DRC in the firms he studied was positively associated with the size of firm and type of assembly operations, and negatively with labour/capital ratios and capacity utilization.

Table 9.11 DISTRIBUTION OF FIRMS OUTPUT AND UTILIZATION BY EFFICIENCY IN 1967-68

DRC range[a]	% of total firms	% of total output	% utilization	At full capacity % of total firms	At full capacity % of total output
Efficient	15.4	13.5	50.3	53.7	50.6
Inefficient	74.4	67.3	34.8	34.1	42.6
(negative)	(20.5)	(24.0)	(31.7)	-	-

including depreciation and 15 per cent return on assets

Note: a. 'efficient' = 'DRC < 1.02 ¢/$'
'inefficient' = 'DCR > 1.53 ¢/$' (includes firms with negative DRC). Firms with DRC in the range 1.20 - 1.53 ¢/$ not shown.
1.02 ?

b. '% utilization' gives actual value of output of firms in the DRC range in 1967-68 as a percentage of their potential full capacity output.

Source: W.F. Steel, "Import Substitution and Excess Capacity in Ghana," Table VI in Oxford Economic Papers, July, 1972, pp. 212-40

(c) Under-utilization of capacity in State-owned enterprises: State-owned agro-manufacturing enterprises were noted to be among the least successful of the Ghanaian industries in terms of domestic resource cost and profitability. This was mainly the consequence of under-utilization of available capacity which in turn resulted not so much from the trade policies then being pursued as from the failure of the agricultural sector to provide the manufacturing units with adequate inputs. This was particularly true of the meat factory at Bolgatanga; the sugar refineries at Komenda and Asutsuare and the fruit canning factories at Nsawam, Pwalugu and Wenchi.[65]
The domestic resource cost of food manufacturing enterprises were estimated by Steel at ¢4.45 to US$1.00.

65. See - Leslie E. Grayson "A Conglomerate in African Public Sector Manufacturing Enterprises in Ghana, 1962-71" in African Studies Review, December, 1973

The primary cause of the inefficiency of the state owned manufacturing industries was bad planning and organisation. The manufacturing and agricultural activities were under different ministries which made no attempt to co-ordinate related activities. Ideology permeated the agricultural sector and concern was more with the political restructuring of the means of production than with producing agricultural goods as inputs at competitive prices for the newly established manufacturing units. Indeed there was no consciously contrived integration between the manufacturing and the agricultural sectors as far as the state enterprises were concerned.

The Nkrumah government sought to modernise the Ghanaian economy by means of industrialisation. From the policies pursued by the Government one gets the impression that it was thought that a successful industrialisation programme could be confined only to the acquisition and operation of factories. The support of the agricultural sector, especially, for the agro-based manufacturing enterprises, was not seriously assessed. Though much money was expended on the agricultural sector,[66] as indicated earlier on, very rarely were the needed requirements of the agro-based manufacturing industries made the targets of some agricultural activities to be subsequently linked to the manufacturing sectors and operated on integrated basis for viability and profitability.

Concerning the agro-based manufacturing industries, backward linkage with the agricultural sector is essential, if they are to operate efficiently. It is easier when the inputs from the agricultural sector are grown on plantations than when supplied from scattered small-scale individual farms. The Ghanaian state owned agro-based manufacturing industries will have to

66. A great deal was spent on agriculture under Nkrumah, but the amount spent yielded poor results, poorer than in manufacturing, because agricultural activities were politically oriented and management was inefficient. That was why the growth of agriculture and manufacturing was un-balanced. See - Tony Killick, Development Economics in in Action: A Study of Economic Policies in Ghana, Heinemann, London 1978

follow the example of Unilever with respect to the latter's vertical linkage of its soap and vegetable oil industries with its plantations.

(viii) Value added as a percentage of gross output in large scale manufacturing: Observations have previously been made on value added as a percentage of gross output in enterprises classified by type of ownership. Table 9.12 gives an over view of value added as a percentage of gross output with respect to the entire large scale manufacturing and its sub-sectors. Regarding manufacturing in general the proportion was in the range of 50 to 60 per cent. From 1962 to 1967 the proportion was relatively high, fluctuating between 55 and 60 per cent, the highest figure being registered in 1966. There was a sharp drop in 1968 to 51.5 per cent and the proportion did not change much from that figure until 1972.

The decrease in the proportions of value added to gross output in the manufacturing sector taken as a whole after 1966 can be understood by examining the value added co-efficient trends in the sub-sectors. Some of the sub-sectors which had large shares in the sector's yearly value added totals (e.g. food and textile as shown in Table 9.9) happened to have value added co-efficients which were either low or generally declined after 1966. A better understanding of the sector's yearly value added co-efficients requires a consideration of those of the sub-sectors as shown in Table 9.12.

As compared with the others the yearly proportion of value added to gross output of the food industries was clearly low. From about 38.0 per cent in the early '60s it dropped to nearly 24.0 per cent in 1966 but demonstrated a rising trend towards the late '60s and the early '70s. It was 42.1 per cent in 1972, but for the whole period it was relatively low. Metal products manufacturing also had a low proportion, but it however showed a rising trend. From 27.8 per cent in 1962 it rose to the 40 per cent range in the early '70s. Chemicals showed a falling trend;

Table 9.12 VALUE ADDED OF MANUFACTURING INDUSTRIES AS A PERCENTAGE OF GROSS OUTPUT AT CONSTANT (1960) PRICES

Manufacturing	ISIC Code	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Food	20	38.6	38.2	45.5	32.3	23.9	21.4	28.8	36.9	33.1	29.4	42.1
Beverages	21	63.0	60.0	61.0	62.9	71.4	74.1	74.0	75.6	69.9	78.4	70.1
Tobacco	22	78.0	80.5	79.6	81.1	87.9	84.5	83.2	83.7	74.9	81.8	80.2
Textiles	23	22.6	50.3	24.3	50.9	54.0	59.0	46.1	31.3	36.9	39.2	38.5
Clothing and Footwear	24	30.5	43.2	46.3	31.3	36.8	52.3	49.6	47.1	51.9	51.7	44.9
Wood	25	60.3	60.0	60.0	63.8	64.7	54.0	36.8	48.2	54.5	52.5	58.4
Furniture & Fixtures	26	61.8	58.2	26.0	47.4	59.4	53.7	52.2	51.1	51.6	56.2	55.2
Paper/Paper products	27	50.0	60.5	62.0	50.0	50.3	53.6	52.9	79.9	46.1	44.7	51.6
Pringing, publishing & Allied industries	28	63.5	69.3	68.6	60.5	73.4	77.9	77.2	60.5	59.8	58.3	52.8
Leather	29	52.9	42.6	40.5	40.7	42.3	38.7	43.2	48.7	38.7	31.0	52.5
Rubber	30	58.8	80.8	42.4	57.7	52.6	68.7	69.2	34.8	62.7	64.5	62.1
Chemicals	31	50.6	41.9	41.0	46.8	47.0	41.8	35.4	40.4	32.2	36.5	33.4
Petroleum	32	-	92.3	91.9	81.0	83.3	89.4	84.2	92.0	97.4	96.7	97.5
Non-metallic minerals	33	52.8	47.7	47.7	57.6	49.5	50.0	39.8	43.2	37.7	20.2	32.0
Basic-metal industries	34	58.0	50.0	21.4	12.3	30.2	57.3	43.3	32.8	43.9	47.1	39.0
Metal products	35	27.8	24.6	31.6	38.7	42.1	38.6	44.1	37.1	43.3	48.7	38.4
Non-Eletrical	36	-	-	-	-	-	-	-	66.7	78.6	63.6	58.3
Electrical machinery	37	-	-	-	-	42.9	38.3	34.1	39.0	41.4	39.2	51.0
Transportation Equipment	38	41.0	27.4	29.1	55.5	45.3	72.5	42.2	38.7	34.1	41.7	46.2
Miscellaneous	39	25.6	50.0	48.6	52.8	53.6	54.3	41.5	68.9	64.4	50.6	49.3
Total		57.2	55.8	55.3	57.8	59.9	56.3	51.5	51.4	50.6	51.0	51.3

Source: Derived from Tables 9.6 and 9.8

from 50.6 per cent in 1962 it fell to 33.4 per cent in 1972. The wood and furniture industries had relatively high proportions; they were on the average above 50 per cent. Rubber manufacturing too had very high proportions which rose from the 50 - 59 per cent range to well over 60 per cent after 1967 with the exception of the 34.8 per cent got in 1969.

The percentage figures for beverages, tobacco and petroleum were quite high - from 60 to 90 per cent. These figures were high because of the high taxes (special and sales taxes and excise duty) imposed on their products. Without the high taxes the value added proportions of the sub-sectors would have been between 65 and 75 per cent of what they were.

(ii) Industrialisation for the export sector: Though import substitution became the predominant feature of Ghana's industrialisation from the early '60s, some progress was nonetheless made with manufacturing for export. As mentioned above under the Capital Investment Act of 1963 tax incentives were provided not only for import replacing manufacturing activities, but also for manufacturing projects using local raw materials to produce for export. During the '60s and early '70s manufacturing for export in Ghana took the form, as indicated in the Capital Investment Act of 1963, of processing local raw materials.

Figures provided in the Industrial Statistics show that in 1962 the value of exported goods manufactured in the country was ¢13.9 million. By 1967 this figure had risen to nearly ¢40.0 million[67] and after declining to ¢34.8 million in 1969 it once again recorded some increases and by 1971 had exceeded ¢39.0 million.[68] During this period the principal export items

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67. Central Bureau of Statistics: Industrial Statistics, 1965-66, 1966-68 and 1969 issues, Accra.

68. C.B.S. Economic Surveys, 1969-71, and 1972-74, Accra.

were wood and cocoa products and both categories made up not less than 90 per cent of the total value of exported manufactured goods. In 1962 wood products, including veneers and plywood, made up more than 95 per cent of manufactured commodities sold for export but the percentage share fell sharply in the mid-'60s. It was about 50 per cent in 1966 and much less afterwards. The cause of the sharp percentage decrease was the emergence of cocoa butter as a product specially manufactured on large-scale for export. In 1967 cocoa butter alone was about 56 per cent the total value of manufactured commodities exported and in 1969 it was well over 65 per cent.[69]

In the early '60s the share of manufactured goods in the total value of the country's exports was about 6 per cent and by 1972 it had increased to 11 per cent.[70] The process of expansion was essentially one of "export substitution," in that commodities which were previously exported only in the raw form were in the process of being replaced by similar but partly or fully processed commodities. For example, increasing proportion of timber in the log form was converted into lumber, veneers and plywood before being exported and similarly cocoa butter and paste were produced for export to steadily reduce the share of cocoa beans.

The gradual expansion of the export substitution that took place can be considered to have occured because the price of the products involved proved to be competitive on the world markets. In other words, the production of the commodities was efficient.

Export substitution industrialisation, as described above, can be distinguished from export promotion industrialisation which may be defined as industrialisation which involves consigning for export goods which were originally manufactured solely for import substitution. The export of such goods becomes necessary when the domestic market has been fully saturated with import replacing goods.

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69. This included aluminium exports from VALCO which are virtually considered to be outside Ghana's economy.

70. The VALCO smelter has been engaged in processing only imported ~~bauxite~~ alumina for re-shipment to the United States; its output is, however, excluded on the basis of the reason given in footnote 69.

As mentioned earlier on, Steel's investigations revealed that during the 1967-68 period only about 13 per cent of the country's manufacturing output was produced efficiently.[71] It was further indicated by Steel that only this percentage of goods could have successfully competed with imports of similar products, had the import controls not been in force. On the basis of the 1967-68 efficiency conditions of the manufacturing sector still prevailing, Steel's findings imply that with respect to the goods which were initially produced for import replacement, it is only in the case of those which were among the 13 per cent considered to be efficiently manufactured that Ghana can embark successfully on export promotion without engaging in uneconomic expenditure of domestic resources probably supported with subsidies. This is a matter which the Ghana Export Promotion Council, a body created by the Government in 1969 and charged among other things with the responsibility of determining the location and extent of foreign demand for the country's products, has to consider seriously.

(x.) Manpower and employment in manufacturing: Recorded employment in manufacturing establishments employing ten or more people rose from 30 thousand at the beginning of the 'sixties to 58 thousand in 1972. Recorded employment of all establishments employing ten or more people increased from 120.7 thousand in the early 'sixties to 424.5 thousand in 1972. The share of the manufacturing sector in total recorded employment in establishments engaging ten or more people increased from 8 per cent in the early 'sixties to around 14 per cent in 1972, an indication of the fact that the rate of increase of employment in the manufacturing sector was more rapid than it was with overall recorded employment in all sectors. The ratio of employment between public and private enterprises increased from 1:6 at the beginning of the '60s to 1:3 at the beginning of the '70s. In a sense this increase reflected the relative rate of expansion of the public enterprise vis-a-vis the private enterprises.

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71. See - Table 9.11

The workers in the manufacturing sector were mostly men and no problems were experienced with the recruitment of unskilled and semi-skilled labour.[72] There is evidence that employment in the manufacturing sector could have grown faster if factor proportions appropriate to Ghana's resource endowment had been used by the manufacturers.[73] With regard to top level and skilled personnel, especially those with technical skills, recruitment difficulties were however experienced.

It was stated in the Lewis Report that African entrepreneurship was deficient in technical knowledge, in managerial capacity and in capital. Whilst technical knowledge can be acquired in schools and colleges it is difficult to remedy deficiency of managerial capacity. To a large extent management has to be learnt on the job and for this reason suggestions were put forward in the report as to how best to acquire it.[74]

In 1960 a survey was conducted of high level manpower in current employment and of projected requirements up to 1965.[75] Of the managerial group

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72. For an account of the social characteristics of the industrial labour force in Ghana, see, for example, Margaret Peil, The Ghanaian Factory Workers. C.U.P. 1972

73. Capital intensity has been high in Ghanaian manufacturing. According to a study by the Ritter Group although investment per worker for all economic activities averaged ¢880.0 in 1970 it was ¢4,700 per worker for the whole of manufacturing. But capital intensity has been much higher in some manufacturing sub-sectors; for example, in 1970 investment per worker was ¢8900.0 in the textile and clothing industry and ¢13,800.0 in the food industry. The high capital intensity increases the country's dependence on imports for spare parts and accentuates the problem of underutilisation when imports of inputs are restricted. Investors, on their part, are probably tempted to use the most modern technology in order to be up to date and hopefully competitive.

74. Lewis Report, op cit. Chapter.3

75. Ghana Government (Ministry of Information, Survey of High-Level Manpower in Ghana, 1960, Accra, 1961.

though 881 were at post it was found that about 25 per cent more were required. Of the professional group (electrical, mechanical etc. engineers) the number at post was maller (less than 200 of each type) but the percentage required for wattage and vacancies was higher - between 70 and 140. Those of the sub-professional and technical group and craftsmen and foremen who were in employment in 1960 were more numerous - some exceeding, 1,500 - was roughly around 45 per cent. No distinction was made between Ghanaian and non-Ghanaian personnel, but it was known that many of the vacancies for people with specific technical and managerial skills were filled by hiring expatriates.

In 1968 another survey of the supply of high-level and skilled industrial manpower in the country was carried out. This time a distinction was made between Ghanaian and non-Ghanaian personnel in employment. The results showed a great improvement over the 1960 situation.[76] Of the managerial category there was a total of 45.9 technical managers of whom 37.7 per cent were non-Ghanaian with 70 posts still unfilled and of the ordinary managers, there were about 1,300 and of these about 24 per cent were non-Ghanaian. The number of vacant managerial posts were 68. The situation was the same with respect to the other occupational groups, except that their numbers were greater and the percentage of non-Ghanaian smaller.

It is worth noting, however, that even though numerically the managerial situation improved, it was not very much so with regard to quality, especially in the case of the state-owned manufacturing enterprises. The question of low level managerial efficiency or the pressing need to improve managerial skills appeared often in official reports, statements and national plans.[77] To remedy the deficiencies of the top level and sub-professional

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76. Manpower Division, Development Planning Secretariat, High Level and Skilled Manpower Survey in Ghana - 1968 and Assessment of Manpower Situation (1971), Accra December 1971.

77. See, for example, Seven Year Development Plan, op cit., p.300. In fairness to the managers it must be pointed out that most of the factories were built by means of suppliers' credit and were not constructed accordingl to the requirements of the country. This in addition to stringent controls and imported inputs has made it difficult for the managers in many cases to operate them efficiently and profitably.

personnel some training institutions for less than one year courses of varying duration have been established,[78] but as indicated in the Lewis Report the craft of business management has to be learnt so largely on the job.

(xii) Concluding remarks

The growth of manufacturing activities in establishments employing 30 or more people from 1962 to 1972 was rapid. The enactment of the Capital Investment Act 1963 must have contributed to the tempo of development. During the period indicated the value of gross output of the sector in constant prices increased 3.3 times by rising from ¢67.2 million in 1962 to ¢223.6 million in 1972. Over the same period manufacturing value-added in constant prices of the same large establishments increased nearly 3 times, i.e. from ¢39.1 million to ¢114.7 million. The average annual growth rate for gross output in real terms over the period was 12.8 per cent and for value-added in real terms it was 11.4 per cent. With regard to both gross output and value-added in real terms the annual rate of growth was higher during the latter half of the period (i.e. 1967 to 1972) than during the first half (i.e. 1962 to 1967), e.g. for value-added they were 13.3 per cent and 9.5 per cent respectively.

The rate of change in output was more rapid in some sub-sectors than in others and this resulted in the sector's structural transformation over the period. From 1962 to 1972 average annual growth rates of value-added at constant prices were high in the following sub-sectors: textiles (68 per cent) and food (27.7 per cent). On the other hand, they were negative in the wood) (-1.5 per cent) and furniture and fixtures (-6.0 per cent) sub-sectors. The textile industry which contributed less than one per cent

78. The principal ones are Management Development and Productivity Institute (MDPI), Accra, and Ghana Institute of Management and Public Administration (GIMPA), near Accra.

of the total larger establishments manufacturing value-added in 1962 increased its share to nearly 11.0 per cent in 1972. In the same period the food industry sub-sector increased its share from just under 4.0 per cent to 15.5 per cent. Because of the average annual decline of the wood industry its share in manufacturing value-added of the larger establishments fell from 30.0 per cent in 1962 to 8.7 per cent in 1972. The petroleum and the basic metal industries started later during the period but grew very rapidly. By 1972 their shares in value-added in real terms were 13.2 per cent and 10.3 per cent respectively.

The manufacturing sector, however, developed under certain conditions and in the process acquired certain features which, if not corrected, may inhibit it from making rapid and wholesome progress in the future. In the first place the manufacturing sector was highly protected by the import control system which has been in operation since 1961, with the exception of a short period of about two years during the late '70s. This system of protection tended to make the country's manufactured goods too costly by world market standards. Secondly, the manufacturing sector was inward-looking. A very high proportion of the goods produced was for the domestic market. Very little was produced for export and this was made up mostly of cocoa butter, cocoa paste and sawn timber. The furniture industry which could have been expanded through export was in decline. Thirdly, the manufacturing sector was too capital intensive; this has aggravated the situation of under-utilization when imported inputs are restricted. Fourthly, whereas the country began its industrialisation programme by mostly utilising inputs that were produced domestically, it tended later to depend more and more on imported inputs. This development began with the acquisition of factories by means of suppliers' credits.

Lastly, allied to the point just made is failure of the Government to pursue vigorously agro-based policies which would link the country's manufacturing sector with its agricultural sector. Removal of these deficiencies would help to ensure a steady growth for the sector in the future and also make it outward-looking.

CHAPTER 10

TRADE AND DEVELOPMENT POLICIES FROM 1966 TO 1972

(i) Stabilisation measures of the early post-1966 coup years:

During the first half of the 1960s the high level of economic development with emphasis on industrialisation which was undertaken by the Ghana Government and the country's rising import bill at the rate of 5.4 per cent per annum together with its declining export earnings led to the emergence of a series of balance of payments deficits. It also happened that even the current account balance which in the past had often resulted in surpluses became constant yearly deficits, averaging around ¢131.00 million per annum. In 1965 the trade balance registered the then record deficit of ¢230.00 million.

To offset the balance of payment deficits the country's foreign exchange reserves were at first chiefly used but when they became nearly depleted, the Government, in order to keep up the inflow of resources required for development, became prone to accepting credits from foreign vendors who were out to increase the sales of their capital equipment and materials. The accumulation of credits was such that by the time the Nkrumah government was overthrown in February, 1966 the external debt which the country had incurred amounted to ¢805.3 million (principal and interest).[1]

Internally, too, imbalances manifested themselves. From 1960 to 1965 domestic expenditure on the whole outstripped gross domestic product.

In current prices when GDP was ¢956 million in 1960 domestic expenditure was ¢1,006. By 1965 the difference between the two had very much widened even though both had greatly increased in value. With GDP then at ¢1,608 million, domestic expenditure had reached ¢1,732 million. The increase in the latter is best seen in terms of its components: consumption

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1. See, E.N. Omaboe: Development in the Ghanaian Economy between 1960 and 1968, pub. by the Ghana Government, Accra. n.d. See especially External Debt, Table 2, on p.17

expenditure of the private and public sectors and gross fixed capital formation. In real terms whilst private consumption expenditure rose by about 0.8 per cent a year from 1960 to 1965, public consumption expenditure rose by just over 11.0 per cent a year. Gross fixed capital formation increased by 5.0 per cent per annum during the period.[2] Public consumption expenditure was therefore the fastest growing of the factors underlying the growth of domestic expenditure during the period.

As shown in Table 10.1 from the 1959-60 financial year the Government's total revenue consistently fell short of its total expenditure. In order to end the deficits in a situation of rising expenditures the Government imposed a variety of new taxes which resulted in increasing its revenue from taxation from 11 per cent of GDP in the 1960-61 financial year to slightly under 16 per cent in 1965. In addition voluntary contributions were obtained from the cocoa farmers and these ranged between 13 and 15 per cent of the Government's revenue in the years payments were made.

In spite of the increase in revenue achieved by the new measures, the gap between receipts and expenditures still remained and the Government had to resort to borrowing from the domestic banking system after making use of its own cash balances and those of the statutory corporations. Borrowing was such that the average compound annual growth rate of money supply during the 1960-65 period was 12.3 per cent, higher than that of GDP in current prices which was just under 11.0 per cent. The imposition of strict import controls on consumer goods in such circumstances helped to bring about a sharp rise in domestic prices. From March, 1963 to the end of 1965 the general level of prices rose by 51 per cent.[3]

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2. See, Economic Survey, 1967, Table 1, page.107

3. For an account of the pattern of economic events in Ghana during the period see, Douglas Rimmer, "The Crisis in the Ghana Economy," The Journal of Modern African Studies, Vol.4 No.1, (1966), pp.17-32

Table 10.1 CENTRAL GOVERNMENT REVENUE AND EXPENDITURE

1957/58 – 1969/70

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Year	(1) Revenue	(2) Expenditure	Surplus (+) Deficit (–)
1957–58	119,662	105,149	+14,513
1958–59	133,241	123,911	+ 9,330
1959–60	140,273	152,177	–11,904
1960–61	166,455	215,493	–49,038
1961–62	150,026	228,625	–78,599
1961–62(3)	194,198	299,935	–105,737
1962–63	165,011	265,400	–100,389
1963–64	245,037	288,362	–43,325
1963–64(3)	293,379	377,434	–84,055
1965	283,978	361,551	–77,573
1966 Jan. to June	115,731	160,116	–44,385
1966–67 (July–June)	241,465	301,061	–59,596
1967–68 (July–June)	300,247	344,289	–44,042
1968–69 (July–June)	291,177	353,591	–62,414
1969–70 (July–June)	369,232	438,302	–69,070

(1) Revenue indicates the portion of Central Government receipts which neither created liabilities nor decreased state's financial assets. It is thus exclusive of the proceeds derived from loans.

(2) Expenditure indicates all payments of the Central Government which neither created financial assets nor decreased liabilities. It accordingly excluded contributions to sinking fund, subscriptions to international lending institutions., etc.

(3) The period covered is 15 months,

Sources: Economic Survey, 1967, Table II, p.108 and Statistical Year Book 1969–70, page 140

The share of imports that consisted of materials, equipment and other producers' goods sharply increased in 1964 and in 1965 after registering distinct but moderate increases in the previous three years. The increase in the inflow of producers' goods, was the direct consequence of the Government's determination to accelerate the country's rate of industrialisation under the Seven-Year Development Plan (1963/64-1969/70), however, the acquisition of the industrial inputs on a massive scale and mostly by means of suppliers' credit soon plunged the country into heavy external debt. From the end of 1963 to that of 1965 this debt rose from ₵38.3million to ₵378.4million.[4]

Because of the various developments mentioned above, when the National Liberation Council took office in February 1966 after the overthrow of the Nkrumah government it immediately undertook the following tasks. First, it took various measures with the object of reducing the Government's expenditures which had given rise to a series of Budget deficits and had also been mostly responsible for the inflationary pressures which had developed in the economy. Second, it set about in various ways to correct the country's balance of payments disequilibrium, newly developed but appearing to become persistent. With respect to the first objective the measures taken included the cancellation or indefinite suspension of public sector projects the construction of which the new government did not consider to be immediately urgent,[5] the discontinuation of extensions to already constructed projects where such extensions were deemed to be merely for prestige,[6] the abandonment of all state farms which did not appear to have

4. See, Economic Survey, 1967, Accra, 1968 Table 10. p.29 and Table II, p.30

5. One of the best examples of this was the abandonment of the Bui hydro-electric project (on the Black Volta) on which preparatory work was far advanced. The announcement from the Ministry of Lands and Mineral Resources stated that for the foreseeable future the country's need for power could be provided by 3 out of the 4 generators that had been installed at the Volta Akosombo Dam. The Bui project would then have cost Ghana £38 million (see, West Africa, October, 1966, p.1187).

6. Outright cancellation of extensions to the Accra Trade Fair sight belonged to this category (see, African Diary, April, 18-24, 1966, p.2826).

the prospect of ever becoming viable and the closure or sale of state-owned enterprises which had either not been viable or proved unsuitable for operation within the public sector.[7] In general, the Government endeavoured to prune its recurrent and development expenditures in line with the recommendations made by the IMF and World Bank missions which were invited to Ghana soon after the 1966 coup and as a result the central government's capital expenditure during the year was drastically reduced to the level of ¢268.4 million as compared to that of ¢361.6 million for 1965.[8]

The second objective, which was to correct the external imbalance also necessitated the adoption of diverse measures. In the first place, immediately after coming into office the National Liberation Council revoked all un-utilized import licences which had been issued by the previous government. This step was taken with the view of securing through reallocation of the licences optimum benefit from the remaining limited foreign exchange earnings. Secondly, in order to remove aspects of existing trade agreements which were disadvantageous to the external trade transactions of the country,[9] the new government re-negotiated all of the bilateral trade

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7. The laundries, bakeries and a tyre retreading firm which were State-owned were sold to Ghanaian businessmen at undisclosed prices. A French firm acquired the match factory at Kade for about ¢0.7m; A Norwegian firm took over 25 per cent of the shares of the State Cement Works Corporation with two factories at Takoradi and Tema and paid ¢0.5m. It was however given the Management of the factories. Firestone Tyre and Rubber Company brought in ¢4.7m worth of foreign exchange to enter into partnership with the Ghana Government in establishing (a) Ghana Rubber Estates in which Firestone had 45 per cent shares and (b) a Tyre Factory at Bonsaso in which it had a controlling 60 per cent share. (Source: State Enterprises Secretariat, Accra).

8. In the _1966-67 Budget Statement_, the Chairman of the NLC announced that development expenditure alone had been cut down from ¢211.3m to ¢150.0 million.

9. According to the 1965 _Economic Survey_, (pp.37-38) whilst the shares of the Western countries showed some decline in 1965, that of the Centrally Planned Economies increased appreciably from 13.8 per cent of total trade in 1964 to 23.8 per cent in 1965. This development was described by the _Economic Survey_ as a strong trade diversion from the West to the Centrally Planned Economics. However the increase in trade with the Eastern Socialist countries led to a deterioration in Ghana's balance of visible trade as its imports from these countries during the year amounted to £42.08m whilst its exports to them amounted to only £24.13m. The IMF Mission to Ghana in 1965 recommended to the Nkrumah government as mentioned earlier in Chapter 7 that the bilateral and barter agreements should be reviewed with the object of reducing their harmful effect on the country's economy. After the 1966 renegotiation with the Eastern Socialist countries, the balance of visible trade with them became favourable for some years.

agreements which the Nkrumah regime had concluded with the People's Republic of China, the Eastern European Socialist countries, Israel and some African countries.[10] Consequently, the agreements with the People's Republic of China and Albania were cancelled and new agreements were entered into with the rest of the Eastern European Socialist countries (towards the close of 1966).[11] Trade agreements with Israel and some African countries were retained, excepting that with Guinea which was cancelled.[12] A third approach adopted aimed at effecting a reduction in the country's debt repayment burden. This took the form of negotiating to return to their suppliers, wherever possible, all those expensive items which were acquired by the Nkrumah government and for which payment was being made with scarce foreign exchange but which the NLC administration, however, regarded as "white elephants". Examples of such items were a British-built Frigate and some Russian Ilyusion planes.

In an attempt to provide a long-term solution to the external trade deficits that had been occuring annually since the beginning of the 1960s the Government decided to devalue the national currency (then the New Cedi which was two cedis equal to £G1.00 = £1.00 sterling) by 30 per cent on July 8, 1967. The pros and cons of this major policy decision is discussed below.

(ii) Import Programming, Foreign Assistance and Debt Settlement Negotiations:

Estimates of external trade figures for 1966 showed that anticipated export earnings would not adequately provide for the volume of imports required for the year.

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10. Besides Albania the other Eastern European bilateral trade partners were USSR, Czeckoslovakia, Bulgaria, East Germany, Hungary, Poland, Rumania and Yugoslavia.

11. When the future of the trade agreements with the Communist countries was under consideration West Africa, (Sept. 10, 1966, p.1037), reported that according to information received from Accra many stores carried out reduction sales, one round of which was started by a leading Western-owned departmental store. In many cases the aim of the sales was to empty the stores of goods from the Communist countries which it was alleged the Nkrumah government had forced importers to buy.

12. In addition to Guinea the bilateral trade partners in Africa were Mali, United Arab Republic, and Upper Volta.

The dreary prospects compelled the Government to look for external aid and as a result of its negotiations the IMF agreed in May, 1966 to permit Ghana to have drawings of up to £13.0 million (¢26.0 million) on the Fund over the succeeding 12 months. To further augument the country's ability to pay for its immediate import requirements agreements were concluded with Canada, West Germany and the United States of America the following June for commodity and project loans amounting to nearly £8.0 million (¢16.0 m.)[13]

Against the financial assistance just mentioned had to be set amortization obligations arising from the medium-term credits advanced to the country by its suppliers and falling due as from June, 1966. The debt from suppliers credits was estimated at ¢466.1 million in February 1966.[14] The new commitments meant an increase in the pressure on the balance of payments and consequently posed great problems for the policy measures which the new Government wished to adopt in an attempt to restore external balance. The Government was thus compelled by the financial straits in which the country found itself to negotiate with its creditor governments for the rescheduling of the country's external debts.

Consequently, representatives of Ghana and 12 of its creditor governments outside the Communist block[15] eventually met in London in December 1966 for negotiations on the rescheduling of the debts and agreed on the following terms: that Ghana should start paying from July, 1, 1967 over an 18-month period 20 per cent of the principal and interest due between June, 1966 and December, 31, 1968; that there should then be a $2\frac{1}{2}$ year moratorium from January, 1, 1969 to June, 30, 1971; and that the remaining 80 per cent of the

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13. See, 1966 Economic Survey, p.13

14. See, E.N. Omaboe, Developments in the Ghanaian Economy between 1960 and 1968, op. cit. p.17, Table 2

15. The 12 IMF creditor-states that were represented at the London talks were the United Kingdom, the U.S.A., Canada, Western Germany, Australia. Belgium, Israel, Italy, Japan, the Netherlands, Norway, and Switzerland. France was invited but did not send representatives. IFM, on the other hand participated.

debt should be repaid over an eight-year period beginning from July, 1, 1971.[16] After the London agreement separate talks were held with each of the creditor governments on the interest rate to be charged in each case. The terms agreed upon in December, 1966 were more generous than those originally proposed by the Western creditors and as conceived were expected to exert less pressure on Ghana's balance of payments.[17]

Debt settlement talks were also held during and after 1967 with each of the Communist creditor governments to whom about 20 per cent of the medium term debt was owed. In due course new repayment terms which were mutually acceptable were obtained.

In order to infuse some rationality into the conduct of external transactions and thereby take additional measures for the ultimate attainment of the equilibrium in the balance of payments the Government adopted a novel policy of first determining the minimum amount of imports needed for a satisfactory operation of the economy and then working out the amount of aid required to bridge the gap between the minimum required imports for the year and the corresponding net foreign exchange receipts. The latter are the net of estimated export earnings of the year in question plus any aid which had already been formally committed less any external financial obligations.

Because of the structural stresses to which the economy was subjected during the first half of the 1960s, it was felt in 1967, the first full year of the adoption of the new policy, that the economy in its entirety had much leeway to make up before it could acquire sufficient strength for a sound and steady growth. The import programme for that year therefore took into account

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16. See, West Africa, December, 31, 1966

17. The creditors agreed to keep the interest rate as low as possible and it turned out in practice to be approximately 6 per cent. On the basis of a subsequent (1968) rescheduling of the debt with 1982 as the terminal year, Norman Hicks estimated that interest payment as compared with the original schedule would increase at the stated interest rate by over ₵100.0 million

For the effect of the rescheduling of/the debts see, Norman B. Hicks, Debt Rescheduling and Economic Growth in Ghana, (mimeo), USAID, Accra, 1969 the rehabilitation of the economy and the minimum import requirements which were consequently worked out laid emphasis on items needed for that purpose.

The annual import programmes were prepared by grouping the required items into different categories and then assessing the value of each of them.[18] In the case of the 1967 import programme with its emphasis on the economy's rehabilitation, statements were incorporated of the considerations which were taken into account in arriving at the amount wanted for each category of goods. As shown below, in some respects whilst the amounts stipulated for some categories exceeded the yearly average of imports of the immediately preceeding years, in others they fell short :-

(a) Food: The minimum food imports required for 1967 was ¢40.0 million though the yearly average for the period 1961-65 was ¢32.6 million. The increase was suggested by the acute food shortage that was experienced in the country for some time before 1966.

(b) Raw materials and spare parts: The estimate for this category was based on a previously conducted World Bank survey and also on the assumption that the industrial sector previously deprived seriously of imported inputs would be functioning slightly above 50 per cent single-shift capacity. The assessed minimum value of ¢70.0 million for the year was a big increase on the 1961-65 yearly average of ¢42.8 million.

(c) Medicines and pharmaceuticals: The amount of ¢6.6 million which was estimated for this category of imports was higher than the amount actually imported in any previous year. The reason for the augmented figure was the acture shortage of these products reported of in the country after the 1966 coup.

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18. For an account of how Ghana programmed its imports from 1967 to 1969 under conditions of scarce foreign exchange resources see, Rattan J. Bhatia, "Import Programming in Ghana, 1966-69" in Finance and Development, Vol.10, No.1, (March, 1973), pp. 20-24

(d) Transport: ¢18.6 million was assessed for transport equipment and in arriving at the figure allowance was made only for the normal yearly increase in traffic; however the needs of the assembly plants as well as those of Ghana Airways, the National shipping line and other transport services were taken into account.

(e) Agriculture and fisheries: Just under ¢6.0 million was the figure estimated for the 1967 minimum required inputs to be imported for this category; the amount was, however, slightly higher than the yearly average of imports for the four preceeding years.

Whilst in value the minimum of the required imports of each of the categories mentioned above exceeded in varying degrees their respective yearly average for the 1961-65 period, the estimates of the minimum requirements for other categories were lower than the corresponding yearly averages for the previous four years. For example, the amount of required imports of non-food consumption goods was severely reduced to ¢42.0 million i.e., slightly more than half the 1965 value. Again, the quantities allowed for construction materials were well below the yearly average of the immediately preceeding years, because newly established factories for the production of glass, aluminium sheets, etc., were expected either to start production or to expand output.

An overall minimum import programme estimated at ¢288.0 million was drawn up for 1967. Though the figure was smaller than any recorded annual import figure since 1959, it nevertheless turned out to be ¢94.0 million more than the net foreign exchange receipts the country could commit that year to imports.[19] After reaching a basic agreement with the IMF creditor nations on the rescheduling of its debts, Ghana made approaches to its

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19. The above outline of Ghana's need for external aid during 1967 is based on a paper presented by the Ghana Government at the Paris meeting in April 1967 and subsequently published; Republic of Ghana, Ghana's Economy and Aid Requirements in 1967, Accra, May, 1967

trading partners for aid at a meeting held in Paris in April 1967 so as to be able to close the ¢94.0 million gap in its balance of payments. The trading partners present at the meeting gave no pledges of aid at the sessions but later some of them made offers of loans and grants which covered a considerable portion of the required assistance.[20]

Until the introduction of massive liberalisation of the import trade in late 1969 by the Busia Government the system of import programming as described above was used to regulate visible imports into the country.[21]

(iii) <u>1967 Devaluation and its effects:</u> In addition to the measures mentioned above the NLC Government adopted a policy measure never before used in independent Ghana. The national currency, the cedi, then valued at ¢2.0 to £1.0 was devalued by 30 per cent on July 8, 1967. Though the devaluation measure had several objectives the correction of the disequilibrium in the country's balance of payments was the overriding one and also the only one that the <u>1967 Economic Survey</u> singled out for mention.[22] The <u>Survey</u> added that the devaluation measure would lead to the attainment of an external equilibrium through the stimulation of exports and the curtailment of imports.

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20. Offers from Canada, Denmark, West Germany and United Kingdom amounting to over ¢50.0 million were received and in addition IMF, OECD, UNDP, and other organizations gave assistance in diverse ways. The total of offers nearly equalled the required amount but unfortunately Bureaucratic procedures permitted only about one-third of the promised aid to be given, according to Mr. E.N. Omaboe, (see - <u>Africa Diary</u>, March, 24-30, 1968) p.3852.

21. The claim that the NLC Government liberalised the import trade has to be qualified, because throughout their stay in office they used import programming in order to contain the value of imports within limits. However, a Committee was appointed in the latter part of 1966 to examine and make recommendations to the Government as to how business could be helped by removing controls from the importation of certain essential items. (see - <u>Commercial and Industrial Bulletin</u>, 7th October, 1966). The items placed on the Open General Licence for 1967 amounted in value to $3\frac{1}{2}$ % of the value of total imports for that year. See Table 4 below.

22. In announcing the 1967 devaluation, Brigadier A.A.Afrifa, the Commissioner then responsible for Finance, attributed the necessity for the measure to the economic mismanagement of the previous regime and added that the objectives of the measure were "to re-activate the economy, increase production and employment, and set the stage for accelerated development in the future."

As a measure for correcting an external disequilibrium devaluation has been widely used in recent times, but setting aside its magnitude its effectiveness has depended upon the supply and demand elasticities of the commodities which are dealt with in the external sector of the country adopting the devaluation measure. It will therefore be worthwhile to consider the demand and supply elasticities and other features of the stapples of Ghana's external trade and then to infer from them how one could *a priori* determine the likely results of a devaluation measure undertaken by the country.

Stimulation of exports can occur when devaluation makes merchandise exports cheaper. What therefore has to be ascertained is the extent to which this is true of Ghana's major exports - cocoa beans, timber, gold, diamonds and manganese - which together accounted for between 88 and 96 per cent of its annual export earnings from 1961 to 1966.[23]

(a) Cocoa Beans: During the decade before devaluation in 1967 this crop averaged 60 per cent of the country's total annual exports. Its price, has been determined in the world market where despite the fact that Ghana was in the 1960s the world's leading producer of the crop it was nonetheless a price taker. Again, because the price of the crop in the world market is quoted principally in either dollar or sterling, devaluation of Ghana's Cedi does not in any way cheapen the crop to the overseas buyer and thus brings about no stimulation of demand.[24]

(b) Timber: Like cocoa beans the well-known species of Ghana's timber have their prices determined in the world market. The other West African countries are competitive suppliers of many of them. However, with regard to

23. See, 1967 Economic Survey, Accra, 1968, Table 17. p.39

24. The 30 per cent devaluation of the cedi enabled exporters of domestic products (cocoa, timber, minerals, etc) to receive for every £1 earned, for example, 43 per cent more cedis than before. For an increase of this magnitude in cedi receipts, the Cocoa Marketing Board increased the producer price for cocoa by only 30 per cent and the Government authorised an increase of 7.7 per cent in the basic minimum wage and 5 per cent in the pay of civil servants. This helped exporting firms either to reduce their losses or to widen their profit margins. It is also worth noting that because of the devaluation, in view of the fact that the structure of the country's cocoa duty was progressive, the amount of revenue collected by the Government on a ton of cocoa exported went up.

species which are commonly found in Ghana but still not well known to foreign buyers the prices are determined domestically and in Ghana's currency. In such cases devaluation will make the less known species cheaper to foreign customers. But according to the "product life cycle" approach to marketing, increases in sales with respect to a new as well as a "growth" product are usually achieved by means of non-price competition such as advertising, gifts and post-sales services rather than through price manipulation.[25] For such species, devaluation is not the appropriate policy measure for stimulating exports.[26]

(c) Gold, Diamonds, and Manganese The prices of these minerals are determined by world market conditions which are outside the control of Ghana. In the case of gold up to August 1971, the international bankers' price was pegged at $35.0 per ounce and as this influenced the price paid for newly mined gold entering the world market,[27] the devaluation did not put gold from Ghana in a more competitive position. In the case of the other minerals, manganese and diamond, it can be said that Ghana has been a price taker in the world market and that its devaluation in 1967 per se did not enhance world demand for supplies from Ghana.

(d) Manufactured exports Devaluation has the effect of improving the comparative advantage of a country's manufactured products, provided it does not increase the cost of inputs. As Ghana's 1967 devaluation was accompanied

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25. One variant of the "product life cycle" concept considers a product's life cycle to cover 3 stages: new product stage, growth product state, and mature product stage. Promotional and servicing activities are associated with the first 2 stages and price competition with the last. For any account of the relevance of the product life cycle concept to international trade see - Lewis T. Wells Jr. "International Trade: The Product Life Cycle Approach" in Lewis T. Wells Jr.(ed) The Product Life Cycle and International Trade, (Boston, Harvard Business School Division of Research, 1972), pp. 3-33.

26. Though the volume of timber(logs) exported greatly increased from declining levels soon after the 1967 devaluation, by 1970 the 1961 level of timber (logs) export had yet to be surpassed. Export increases were associated with well known species and resulted from increases in supply when the devaluation brought the revenue of the timber firms in cedis in line with their production costs.

27. At a central bankers' meeting held in Washington in 1968, it was decided that newly-mined gold would be sold in the free market at prices not held at $35.0 an ounce.

by an official increase of wages of only 5 per cent, manufacturing activities relying mostly on domestically produced raw materials experienced a relative reduction in their production costs (as compared with their enhanced receipts). This was especially true of activities producing items (i) to (v) as shown in Table 10.2. As an examination will show, the products concerned were all export substitutes and most of them recorded increases in value after 1967.[28]

The category termed " other manufacturers" comprised principally import competing goods. Besides rubber products, furniture and fixtures they were in the main items which depended on imported raw materials for their manufacture[29] and textiles and leather goods were among the principal products.

In actual fact, devaluation raised the cedi cost of the imported raw materials and in the absence of any manufactured exports obtaining drawbacks on customs duties that might have been the same, the unit cost of such exports would be higher than the prevailing world prices. Higher costs would certainly not induce foreign demand.[30] In any case, Table 10.2 shows that the 1967 devaluation did not generate a steady marked expansion in the export of goods from Ghana's import competing sector.[31]

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28. The increases in the exports of cocoa butter, cocoa paste and sawn timber after 1967 were partly due to additional supplies provided by newly established processing units, of which some were set up with suppliers credits.

29. Aluminium, produced at the VALCO smelter with imported bauxite is shown separately.

30. In the 1969-70 Budget Statement one of the export promotion incentives the Government offered to manufacturers was tariff drawbacks. This is a clear indication that a similar offer made under the Capital Investment Act 1963 had all along not been effectively implemented.

31. Table 10.2 shows that the annual value of exports from the import substituting sector was with the exception of that for 1966, less than 1.0 per cent of the total value of the annual exports of domestic manufactures. For the period shown the annual exports of fruit juices surpassed that of the exports from the import replacing industries.

Table 10.2 VALUE OF EXPORTS OF DOMESTIC MANUFACTURES, 1965-70

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	1965	1966	1967	1968	1969	1970
(i) Cocoa paste	889	1,214	2,481	4,490	3,342	3,900
(ii) Cocoa butter	11,442	11,499	22,476	24,052	24,044	27,252
(iii) Lime & Other fruit juices	576	522	757	53	653	793
(iv) Timber (sawn)	11,432	9,977	9,563	12,296	14,963	17,096
(v) Wood & Cork manufactures (excluding furniture and fixtures	1,456	433	358	538	716	1,160
(vi) Aluminium	5	-	8,693	26,726	43,909	31,906
(vii) Other manufactures*	121	436	192	48	260	243

*Note: This is made up of sections 6 and 8 of exports of domestic produce excluding wood and cork manufactures and aluminium.

Source: Central Bureau of Statistics, Statistical Year Book, 1969-70: External Trade Statistics, December issues for the years 1965 to 1970, Economic Survey 1969 and Economic Survey 1969-71 and Quarterlory Digest of Statistics, 1968 and 1972 issues.

(e) Impact of devaluation on imports: The Ghanaian demand for many categories of imports in the country is on the whole relatively inelastic. The reason is that there are no local substitutes for them; even where import replacing products are being provided, preference has been shown for imported makes. With regard to industrial machinery, spare parts and petroleum, all requirements have to be imported and the quantities involved are insensitive to price changes arising from devaluation because as importables the elasticity of demand for them is low.

Another point worth noting is that because the production of foodstuffs in the country has been low much reliance has been placed on the imports of many food items in order to supplement inadequate supplies from domestic sources. In such circumstances, a devaluation measure is most unlikely to bring about an appreciable decrease in the quantities of foodstuffs imported; it will rather lead to a rise in their prices.

(f) The effect of the 1967 devaluation on visible trade: In assessing the results of the 1967 devaluation the 1968 Economic Survey stated that one of the aims of the "major policy change" was to expand exports by making them competitive in the world markets and also to reduce imports by effecting an increase their prices. However, the statistics of Ghana's visible trade for 1968, the first full year after the devaluation measure was adopted, showed that by the end of the year the desired effect of the measure on the country's visible trade had not been secured.[32]

The 1969 Economic Survey confirmed the view expressed by the previous year's issue. Whilst noting that the country's visible external trade grew considerably in value during the year, a development which affected both exports and imports, and that the year's balance of trade also showed a surplus of ₵43.3 million,[33] the highest since 1958, it went on to observe that "the devaluatio

32. See, 1968 Economic Survey, p.113

33. The 1969 earnings from total visible exports amounted to ₵397.7 million whilst the imports bill stood at ₵354.4 million. (See 1969 Economic Survey p.33). The export value was 61.1 per cent up on the 1967 figure, and that of imports 35.5 per cent up on the same year's figure. For the causes see below.

(had) neither decreased the quantum of imports nor increased the quantum of exports."[34]

It is certainly in terms of the volume of exports and of imports that the effects of the devaluation can best be assessed. Figur 4 shows the volume index of Ghana's imports and domestic exports for the period 1965 to 1970 with 1954 as the base year. The imports index fell steadily from 210 in 1965 to 185 in 1966 and subsequently to 175 in 1967. In 1968, the first full year after devaluation, the volume index of imports rose sharply to 252 instead of falling from 175 as was expected to occur, because of the devaluation. In 1969, however, it dropped to 217 and in the following year again dropped, but marginally to 212. What is notable is that the figures for 1968 to 1970 were much higher than that for 1967. With regard to the volume index for domestic exports there was a marginal rise from 169 in 1967 to 173 in 1968, to be followed by a pronounced drop in 1969 to 143 and then a sharp rise to 180 in 1970. Whilst the domestic exports volume index for 1970 was higher than that for 1967, it was nevertheless lower than those for the preceeding years shown in Figure 4.

(g) Causes of post-devaluation volume index trends - Since the devaluation was intended to expand exports and to reduce imports, expressed in volume indexes the expected trend was a rise in the volume index of domestic exports and a fall in that of imports. In view of the fact that prior to the 1967 devaluation the two indexes moved closely together for some time, after the adoption of the devaluation measure a marked divergence between the two was a reasonable expectation, with that of domestic exports rising and that of imports falling. However, as shown in Figure 4 what happened was the oposite and appears to suggest that in the prevailing conditions of Ghana devaluation was not an appropriate measure for effectively expanding exports and reducing imports.

On the exports side although the devaluation put the finances of the firms producing for export in a better position, the flow of the various export

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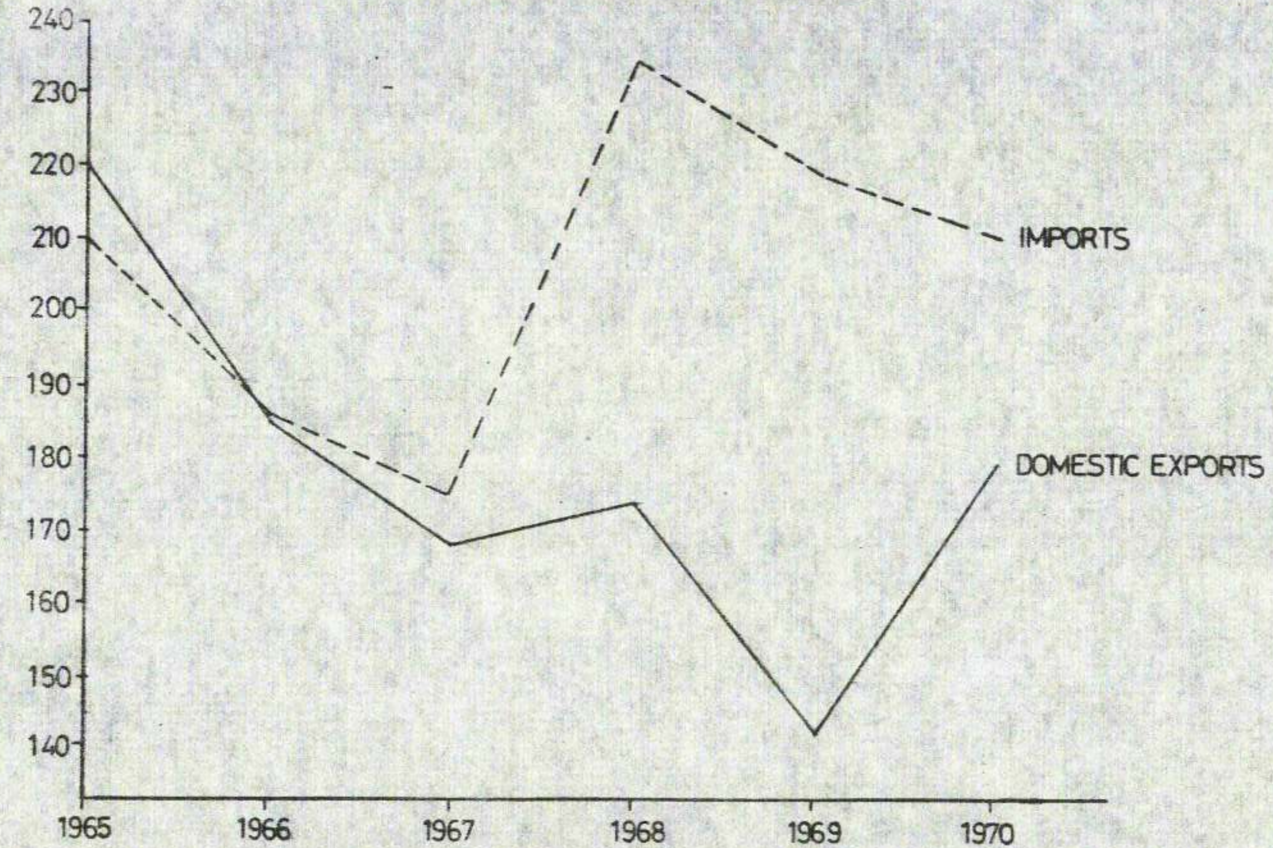
34. 1969 Economic Survey, p.105

VOLUME INDEXES OF IMPORTS AND DOMESTIC EXPORTS, 1965 - 1970 (1954 = 100)



Source: C.B.S. Quarterly Digest of Statistics.
Sept. 1969 & Mar. 1972 issues for the data.

FIG. 4

items however remained sluggish.[35] Table 10.3 sets out the performance of the principal export items in terms of the quantities exported and the average prices obtained per unit of product for the period 1966-70. With respect to minerals - gold, diamond, bauxite, and manganese - quantities exported after 1967 were generally unsteady. In the case of gold on the average the price obtained for a unit after 1967 was about 50 per cent higher than it was before, yet the amount exported each year steadily declined, from 735,000 ounces in 1968 to 697,000 ounces in 1970.[36]

The volume of timber (both logs and sawn) exported after 1967 on the whole showed a distinct increase. This suggests a response to improvement in the average price obtained for a unit of product after devaluation.[37]

The most important single export item which had been influencing changes in the overall volume of exports was cocoa beans. This is shown by a comparison between the direction of changes in the quantities of the crop exported each year and the corresponding trend of the volume index of domestic exports. As can be seen from Table 10.3 despite the steady improvement in the prices of cocoa beans and related manufactured products (i.e. cocoa butter and cocoa paste) for the period shown, quantities exported were generally on the decline.

After dropping from 392,000 tons in 1966 to 330,000 tons in 1967 the volume of cocoa beans exported remained at the same level in 1968 and in the following year, despite continuing improvement in prices, the quantity exported dropped further to 303,000 tons. This was the most important contributory factor to the sharp fall that year of the volume index of domestic exports,

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35. The term "sluggish" was used by 1968 Economic Survey, p.45 to refer to the volume of exports of some items of domestic produce in 1968, but it can rightly be used for the volume of all domestic produce, except, timber, exported during 1968-70.

36. In 1967 aluminium started to be exported from the American-owned refinery of VALCO (Volta Aluminium Company), at Tema. The product is exported to Valco's associated firms in the United States. Because the exports are the outcome of international transactions between associated firms belonging to multinational enterprises amounts shipped were not sensitive to price changes as they arose from the administrative decisions of the multinational firms.

37. The yearly increase in the export of timber (both logs and sawn) did not result from general steady increase in all species. It was confined to the well known species and an examination of the external trade statistics shows that these took turns in dominating each year's timber exports.

Table 10.3 QUANTITIES AND AVERAGE UNIT PRICES OF PRINCIPAL DOMESTIC PRODUCE EXPORTED, 1966-1971

		1966		1967		1968		1969		1970		1971	
	Unit of Quantity	Quantity '000	Average Value of Unit ¢	Quantity '000	Average Value of Unit ¢	Quantity '000	Average Value of Unit ¢	Quantity '000	Average Value of Unit ¢	Quantity '000	Average Value of Unit ¢	Quantity '000	Average Value of Unit ¢
ocoa beans	ton	392	262.00	330	395.97	330	562.42	303	721.34	362	829.83	309	631.28
ocoa paste[1]	ton	24	50.58	24	102.31	23	195.21	19	175.89	17	229.41	20	174.55
ocoa butter	ton	39	294.85	23	977.22	20	1,202.60	18	1,355.80	17	1,603.06	22	1,105.00
imber(logs)	hop.ft.	13,210	0.82	13,986	0.89	15,579	1.03	19,334	1.25	16,667	1.19	19,597	1.05
imber(sawn)	cub.ft	7,238	1.38	6,690	1.44	7,597	1.62	7,734	1.94	8,506	2.01	6,560	1.86
uxite	ton	306	4.86	296	5.38	237	6.30	242	5.76	218	6.05	346	6.58
nganese	ton	589	20.63	445	21.65	440	23.96	324	21.66	397	18.16	412	16.12
iamond	carat	1,999	5.42	1,990	6.35	2,997	5.82	2,477	5.60	2,872	5.04	2,367	4.96
old	f.o.t.	690	24.72	767	27.34	735	39.43	713	41.82	697	36.87	697	40.82
uminium	cwt.	-	-	779	11.16	1,510	17.70	2,482	17.69	1,950	16.36	1,748	17.01

(1) Including cocoa cake.

Sources: Economic Surveys, various issues and External Trade Statistics, 1966-68, issue from 173 the previous year to 143. In 1970, however, the quantity of the crop exported rose to 362,000 tons.[38]

Concerning imports, the 1967 devaluation produced some surprising results in *quantum* terms. As recounted earlier in this chapter, the National Liberation Council, soon after assuming office, adopted an expenditure reducing fiscal policy which concentrated upon cutting down the government's expenditure on development projects.[39] The implementation of the policy had some impact on the volume of imports the index numbers of which fell from 210 as it was in 1965 to 186 in 1966. The NLC however, made it known that it would do away with the direct controls of external trade as soon as economic conditions permitted. As a gesture the open general licence system was reintroduced, but on a small scale, in 1967, and as shown in Table 10.4, 3.15 per cent of the total imports that year was obtained by OGL. In the following year the percentage increased to 18.55 and to 27.83 in 1969.[40]

Whilst setting about to fulfil its promise to abolish direct controls of external trade, the NLC adopted another variant expenditure switching trade adjustment policy by devaluing the currency by 30 per cent in 1967. It was felt that the nature and magnitude of the measure would besides having other effects, not only restrict imports across the board but also be sufficiently effective to correct the persistent disequilibrium that had developed in the country's external sector.

The period of stabilisation and consolidation as declared by the NLC on assuming office came to an end in mid-1968 and during all that period it

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38. In the short run changes in the output of cocoa are brought about by changing weather conditions rather than by changes in the price offered for the crop. In the long run ie., 5 years and over, output trends are however, influenced considerably by changes in purchase price which in Ghana refers to the "producer price" of cocoa offered by the Cocoa Marketing Board and not to the world market.

39. In the 1966-67 Budget Statement by Lt.Gen. J.A.Ankrah, Chairman of the NLC it was declared that to restore balance to the budget of the Government, emphasis would be placed on the reduction of Government expenditure rather than on increased taxes.

40. In the *1968-69 Budget Statement* announcement was made of the placement on OGL of industrial materials for the mining, timber and pharmaceutical industries as well as the following items: paperboards, newsprints, iron rods, iron angles, pumps and pipes and several items not produced locally.

Table 10.4 OPEN GENERAL LICENCE IMPORTS 1967-71

¢'million

	Group	1967	1968	1969	1970	1971
0.	Food and live animals	6.86	6.35	8.94	60.97	48.42
1.	Beverages and tobacco	0	0	0	0	1.09
2.	Crude materials inedible	0.03	0.04	0.06	0.40	8.15
3.	Mineral fuels and lubricants	0.04	0.35	0.35	0.72	3.86
4.	Animal and vegetable oils and fats	0	0	0	0	5.25
5.	Chemicals	0.67	20.44	33.56	39.92	70.16
6.	Manufactured goods	0.14	4.73	17.80	25.90	60.39
7.	Machinery and transport equipments	0	22.79	31.48	51.09	115.52
8.	Misc. manufactured articles	0.26	0.34	2.27	3.82	12.90
9.	Miscellaneous n.o.s.	0	0	0	0	0
	Total	8.00	55.04	94.46	182.82	325.74

OGL PERCENTAGE OF TOTAL IMPORTS OF GROUPS

	Group	1967	1968	1969	1970	1971
0.	Food and live animals	15.88	12.45	16.20	76.72	77.36
1.	Beverages & tobacco	0	0	0	0	23.51
2.	Crude material inedible	0.82	0.64	1.11	4.25	65.93
3.	Mineral fuels & lubricants	0.26	1.63	1.53	2.96	14.28
4.	Animal and vegetable oils and fats	0	0	0	0	100.00
5.	Chemicals*	2.62	66.02	83.68	81.64	97.98
6.	Manufactured goods	0.19	6.20	18.27	25.68	60.78
7.	Machinery & trans.equipts.	0	26.51	33.31	47.25	87.84
8.	Misc. manufact. goods	1.69	2.44	15.55	23.33	67.17
9.	Miscellaneous n.o.s.	0	0	0	0	0
	Total	3.15	18.55	27.83	45.58	73.51

Note:- *OGL and total imports do not include VALCO imports of aluminium, single copies of books and periodicals.

(ii) The 1971 figures reflect what the situation would have been if all the importables placed on OGL during 1971 had already been on the list at the beginning of the year.

Source

Data for 1967 to 1970 from Foreign Trade Regimes and Economic Development: Ghana by J. Clark Leith, Table V-IIq and data for 1971 calculated from External Trade Statistics on the basis of corresponding OGL lists pub. in Commercial and Industrial Bulletin.

adhered to its expenditure reducing fiscal policy. With respect to imports the effects of this policy together with those of the devaluation measure contributed to a further reduction in the size of imports with the respective index falling by 11 points in the year of devaluation to 175.

The Government's policies with respect to external trade and expenditure underwent a change when the Two-Year Development Plan for the period mid-1968 to mid-1970 was implemented.[41] As can be seen from Table 10.1, government expenditure started about that time to expand once again and its budget deficits which had been pared down during the stabilisation period also started to increase.[42] In 1968 the volume of imports increased and its index accordingly went up by 57 points to 232. Groups of import items which showed the greatest volume increases were chemicals and fuels, but others with increases on a smaller scale were food and beverages. On the other hand, machinery and transport equipment decreased very slightly in quantity whilst the volume imports of other forms of manufactured goods remained about the same.

In the following year the volume of imports decreased but by a smaller magnitude than in its rise in 1968. As shown in Figure 4, the volume index fell to 217.

(h) The impression and reaction of the NLC to the 1967 devaluation: Though in quantum terms the imports and exports of Ghana after devaluation assumed trends which were contrary to the results expected from the devaluation exercise, in terms of value, however, the balance of visible trade, as shown by the figures in Table 10.5, steadily improved from 1967 to 1970. The visible trade deficit

41. The objectives of the Two-Year Development Plan, according to the government were to provide foundations for the self-generating growth of the economy and also to achieve growth during the plan period through better utilisation of imports and investment resources, to generate employment and to maintain both internal and external balance so as to avoid domestic inflation and a balance of payments disequilibrium.

42. Though the Government's expenditure started to increase from the 1967/68 financial year, its capital expenditure sub-section decreased in the 1967/68 financial year as well as in the 1968/69 financial year; the figures being ¢62.9m and ¢55.1 million respectively. It however rose to ¢83.1 million in 1969/70 financial year. (See Statistical Year Book 1969/70, Table 138)

of ¢21.9 million turned to a surplus balance of ¢23.2 million in 1968 and this surplus increased to ¢36.4 million the following year. The rise in the earnings of domestic exports was due to increases in the volume of exports, which as already depicted in Figure 4 rather assumed a declining trend until 1969. The major factor contributing to the increase in export earnings was the appreciable rise in the price of cocoa on the world market as described earlier. (See also Table 10.3).

TABLE 10.5 BALANCE OF VISIBLE TRADE 1967-71

Year	Imports (c.i.f.)	Exports of Domestic Produce (f.o.b.)	Balance
1967	¢261.5 m.	¢239.6 m.	- ¢21.9 m.
1968	¢314.0 m.	¢337.2 m.	+ ¢23.2 m.
1969	¢354.4 m.	¢390.8 m.	+ ¢36.4 m.
1970	¢419.0 m.	¢460.2 m.	+ ¢41.2 m.
1971	¢443.1 m.	¢363.0 m.	- ¢80.1 m.

Sources: Quarterly Digest of Statistics, various issues and Economic Surveys various issues

At that time because cocoa beans accounted for about 55 per cent of the country's total export earnings, the increase in the crop's unit price resulted in greatly augmenting the total export earnings. But cocoa price improvements originated on the world market and were not brought about by the devaluation. For this reason the rising trend in the country's export earnings after 1967 would have occured, regardless of the devaluation.[43]

43. Devaluation of course, had the effect of increasing the cedi receipts of exports by 43 per cent, but this has to be distinguished from the growth of export receipts from 1967 to 1970. It is worth noting that imports also grew in value during the period, but at a slower rate.

It became evident by 1969 from the pronouncements made and the measures initiated by the NLC that it had realised that the devaluation had not been much of a success. In the 1969/70 Budget Statement its reactions to the post-devaluation performance of some economic sectors were spelt out:

(1) in the mining industry financial assistance had to be given by the Government to some mines in order to keep them in operation. This partly explained the unimpressive export record of the mining sector after 1967;

(2) the timber industry was noted to have increased its output to a level higher than could be handled by the transportation system, and,

(3) failure of the export sector either to develop new commodities for trade or to establish territorially new markets.[44]

Furthermore, the smallness of the size of Ghana's trade with other African countries was mentioned.[45] In recognition of the fact that devaluation in itself had not been enough in effecting satisfactory increases in the volume of the country's exports, the NLC introduced certain export promotion measures the object of which was to provide Ghanaian firms with incentives and ameliorating conditions conducive to searching for foreign markets. In substance, the export promotion measures were as follows:

First, the firms in the manufacturing sector, with the exception of those in the woodworking and metal industries, which would be able to export a certain percentage of their total production would qualify for a specific rebate in respect of their total company tax liability. The benefits set out were for exports of 25 per cent of total production, 50 per cent tax rebate; for export ratios of between 15 and 25 per cent of total production, $33\frac{1}{3}$ per cent tax rebate and for ratios of between 5 and 15 per cent, 10 per cent tax rebate.

44. See 1969/70 Budget Statement, by J.H. Mensah, Commissioner responsible for Finance. section 58.

45. Ibid., section 59

Second, exporters would on application be refunded any payment of excise and sales taxes made on locally fabricated goods that were exported and be granted drawbacks on the inputs utilised.

Third, exporting firms which in any year surrended to the Bank of Ghana more foreign exchange than they did in the preceeding year would be entitled to a bonus equivalent to 10 per cent of the difference between the two amounts.

Fourth, exporters would be entitled to the automatic replacement of import licences used for ordering inputs utilised in the domestic production of the manufactured exports.[46]

Furthermore, in order to encourage exploitation and shipment of secondary species of timber, exporters of such species were given an incentive in the form of one third rebate on the railway freight charges from any point to a port within Ghana.[47]

In addition to proposing the above scheme of incentives the NLC similarly announced the establishment of (a) an Export Company which would engage in selling "Made in Ghana" goods abroad and (b) an Export Promotion Council to provide assistance to exporters with problems.[48] The adoption of these measures points to a realisation by the NLC that as a young country striving to increase the sale of its products abroad, especially the sale of non-traditional products, Ghana could achieve worthwhile results if besides changing the exchange rate there would be active engagement in export promotion.

(iv) The Busia Government and Foreign Trade Dr. Busia and his government replaced the NLC in October, 1969 after he and his Progress Party had swept the pools a few weeks earlier. In their election campaign manifesto the Party

46. Ibid., section 61

47. Ibid. section 32. This incentive in the form of rebate to timber exporters was given because as stated earlier, the expansion of timber exports after the devaluation was confined mostly to well known species. To effectuate an expansion in the exportation of secondary species of timber something more than a rebate on transportation charges was required and among the needed measures was sales promotion.

48. Ibid, section 65.

made known its disapproval of the external trade controls which had been enforced during and since the time of Nkrumah. For this reason the elimination of imports restrictions which the NLC had initiated and been pursuing gradually by means of the OGL system was carried on with vigour by the Busia government as soon as it assumed power. The number of importable items which were put on OGL was rapidly increased and as a result the proportion of such goods in terms of value, rose from about 28 per cent of total imports in 1969 to about 46 per cent in 1970. At the end of 1971 according to Economic Survey 1969-71 about 75 per cent were placed on OGL.

Besides the extension of the OGL list, conditions, too, were made easy for the importation of goods. The demanding requirements to be satisfied by would-be importers were relaxed and the procedure to be followed in ordering goods were simplified. In consequence, as the 1969-71 Economic Survey, put it

> "a mushroom of importers sprang up overnight who imported quite sizeable quantities of goods without due regard to the availability of Foreign Exchange or its effect on the Balance of Payments position of the country." 49

The intention of the Busia Government in removing controls on imports was to pursue an expansionary economic programme which would attain growth rates higher than had been achieved earlier. It was claimed by the Minister of Finance in the Busia Government[50] that in terms of real output the country's GNP had grown by 3.4 per cent and its statistical equivalent of 4.1 per cent compared favourably with the 2.5 per cent attained in 1968.[51] In the context of his budget statement it implied that if the 1969 "accelerated rate of growth", as he described it, could be attained under the limited scope of imports liberalisation obtaining in that year, then far better results could be achieved with a greatly liberalised imports programme.

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49. See - p.23

50. He was J.H. Mensah, who during the 1969/70 financial year was the Commissioner responsible for Finance in the NLC Government.

51. 1970/71 Budget Statement.

The liberalisation exercise undertaken by the NLC from 1967 to the latter part of 1969 occured when the price of cocoa was steadily rising on the world market and for that reason the expanding imports did not give rise to any balance of visible trade problems. The Busia Government pursued its liberalisation drive in the belief that improved cocoa prices would hold. In order, however, to contain the inevitable pressure which the highly expanded OGL imports would generate on the country's foreign exchange reserves, corrective measures were taken. First, the 5 per cent surcharge which the NLC imposed in 1969 on the c.i.f. value of OGL imports was replaced in the latter part of 1970 with surcharge rates ranging from 5 to 150 per cent.[52] Again, various taxes on the use of foreign exchange for invisible transactions were introduced in late 1971 in the first budget of the Busia Government.[53]

It was realised in 1971 that the extension of the OGL list of imports to cover machinery and equipment without a corresponding extension to cover complementary inputs had created a situation in which a satisfactory industrial development could be obtained. To put matters right, therefore, the requisite inputs amounting to about 6 per cent of total imports for the year were put on OGL.[54] To prevent further pressure on the balance of payments, the importation of about 150 items, mostly consumer goods, was banned in the 1971/72 budget.

The imposition on varying rates of surcharge on the different categories of goods on the OGL list was considered by the Government to provide a market

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52. However, the importation of machinery and equipment the value of which was in excess of ¢50,000 still had to receive the prior approval of the Bank of Ghana with respect to the terms of payment (See Bank of Ghana, <u>Report of the Board for the Financial Year ended 30/6/72</u>, p.33

53. Business and private travel as well as remittances of dividends and profits were to attract 25 per cent tax. The same tax rate was to apply to users of foreign exchange for airlines and shipping remittances other than for merchandise. Students' (remittances were to be taxed at 10 per cent. The reason for the imposition of taxes on the use of foreign exchange for invisible transactions was that whereas the balance of visible trade for 1968 and 1969 was favourable, invisible transactions ended in deficits. According to the Bank of Ghana Reports for the 1970/71 and 1971/72 Financial Years the deficits for 1968 and 1969 were ¢95.5 million and ¢151.3 millions respectively.

54. Before then no explicable reason was given as to why some importables were selected for placement on the OGL list.

mechanism which was superior to administrative controls for the regulation of imports. It turned out that the liberalisation exercise proceeded a t the accelerated pace during the latter part of 1970 without causing any balance of payments problems. The reason for this was that receipts from exports, due to bouyant prices for merchandise items, rose faster than payments for imports. The situation, however, changed as from early 1971 when the price of cocoa started to fall on the world market. Notwithstanding this, the Busia Government introduced in the latter part of the year the 1971/72[55] Budget which had a highly expansionary economic programme. It became apparent towards the end of the year that the restructured surcharges could not adequately ease the pressure which the implementation of the budget and the inflow of goods on OGL were generating on the balance of payments. As export earnings dwindled with the continuing fall of the price of cocoa, the foreign exchange situation became so precarious that according to the Economic Survey, 1969/71 the available gold and convertible foreign exchange resources of the country at the end of the year could barely pay for 12 days' imports, if calculation was made in terms of the average monthly imports of 1971.[56] The critical state of the external sector at last compelled the Busia Government to devalue the cedi on 27th December 1971 by 44 per cent against the US.dollar. He also, at the same time, suspended the export bonus scheme and abolished the import surcharges along with taxes on the use of foreign exchange. With regard to certain items quantitative restrictions were reintroduced.[57]

It was felt by the Government that by its magnitude the devaluation would be much more effective than that of 1967 with regard to rectifying the country's balance of payments disequilibrium. The immediate effect of the measure was a

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55. The banned items were in most cases being either manufactured or assembled in Ghana.

56. Economic Survey, 1969/71, p.23

57. Producer price of cocoa was to be increased by 25 per cent, ie., raised from ₵8 to ₵10 per 60ℓbs load as from June, 1972; and the Government minimum wage to daily rated workers raised by 33 per cent, from ₵0.75 to ₵1.00 from 1st January, 1972.

sharp rise in the general level of prices. As put by the Bank of Ghana's Report of the Board, "most consumer prices doubled artificial shortages were created as hoarding of goods became very rampant in anticipation of still higher prices. Business morale fell very low and there were threats of labour lay-offs ..."58

It can be added that business firms which had imported goods on credit were obliged to pay about double the cost of the merchandise in cedis when remitting to their creditors and also soaring prices of both imported and domestically produced consumer goods resulted in a considerable lowering of the standard of living of the people.

(v) The trade policies of the post-Busia military government: The devaluation of the Busia Government was short-lived for on 13th January, 1972 the Progress Party Government of Busia was overthrown by a group of army officers in a coup. The pretext for the takeover was the economic policies being pursued by the Busia Government and the hardships which the society consequently had to endure. To the new rulers who styled themselves the National Redemption Council (N.R.C.) the devaluation of December 1971 was the last straw as far as the erstwhile government's alleged economic mismanagement was concerned.

The country was certainly facing serious economic problems and external sector issues were pivotal. Against the background of very low cocoa prices on the world market throughout the previous year, the wholesale liberalisation of imports by the Busia regime had nearly exhausted the country's foreign exchange reserves and caused its unpaid import bills and accumulated short-term debts to rise to ₵194.6 million. Among the policy measures announced by Colonel I.K. Acheampong, Chairman of the NRC on 5th February, 1972 with a view to solving the country's economic problems those relating to international transactions were as follows:

58. Bank of Ghana, Report of the Board for the Financial Year Ended 30th June, 1972, p34

(a) The cedi was revalued by 42 per cent thereby reducing the overall devaluation of the cedi from 44 per cent to 26 per cent against the US. dollar.

(b) Import restrictions were placed on certain categories of goods which had been put on the Open General Licence and a rational system of import licensing introduced for the regulation of imports.[59]

(c) The system of 180-day credits was abolished.

It was the general belief that under this arrangement suppliers were usually induced by such considerations as risk and delays in the settlement of bills to put up their prices by about 15 per cent. In order to reduce the burden of debt arising from trade a system of payment for imports on sight was instituted.

Later in the year, in the 1972/73 Budget further regulations on the external sector aimed at boosting and diversifying exports were made. The export bonus scheme abolished in December 1971 was reintroduced. This time a bonus of 30 per cent[60] was to be paid on all products originating from Ghana, with the exception of timber, cocoa, all minerals and the by-products of each category. The adoption of this policy was intended to reduce too much reliance on cocoa, timber and minerals by encouraging the development of new lines of export.

Because of the reintroduction of the export bonus scheme the drawback granted on imported inputs utilised in the making of a product subsequently exported was abolished.

(vi) External debts payments policies and trade: As foreign trade is of vital importance to Ghana's economy, the absorption of a considerable portion of its

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59. The reduction of the volume of imports through the imposition of import licences led to shortages of both consumer and producer goods; under-utilisation of capacity increased and construction work was adversely affected.

60. In its implementation the bonus has been reduced to 20 per cent.

foreign exchange earnings by the servicing of trade debts incurred during and after the Nkrumah regime has placed a severe constraint on its economic development. In spite of the debt rescheduling agreed upon with the creditor countries in 1966, 1968, and 1970, servicing however, turned out to be a heavy burden on the country's balance of payments.

During the Busia regime Ghana suggested that the repayment scheme to be adopted should be one which was based on a rehabilitation programme for the country.[61] Shortly after the NRC took office it announced on 5th February, 1972 that:

(a) It had cancelled all debts and other obligations arising under suppliers' credit contracts which had been signed during the Nkrumah regime and which were vitiated by corruption, fraud or other illegality; on available evidence it meant the outright repudiation of one-third of the principal amount of the suppliers' credits of this category.

(b) It would not unconditionally accept without review debts which had arisen from post-Nkrumah suppliers' credits; it would, nevertheless, accept and pay all debts which had arisen from suppliers' credits subsequently established as valid.

(c) The accumulated moratorium interest totalling US.$72 million on the repudiated principal amount of suppliers' credit was rejected.

The NRC however declared that the country would repay its short-term debts which arose from arrears on import credits as quickly as the country's foreign resources would allow and that long-term debts would also be paid on terms originally agreed upon. In view of the country's limited foreign exchange resources and the heavy pressure on its balance of payments, the settlement of debts arising from suppliers' credits accepted as valid would be spread over a period of 50 years, including 10 years of grace. Furthermore, the payment of

61. See - 1970/71 Budget Statement of J.H. Mensah, then Minister of Finance in the Busia Government.

such debts was to be made on terms which apply to credits granted by the International Development Association.[62]

The reaction of the creditor countries to the NRC announcement on the external debts was to terminate virtually all foreign aid to Ghana. This forced the country to pay cash for all its imports with the result that the growth rate of the gross domestic product in real terms was negative in 1972.

(vii) Balance of payments oriented development policies: Soon after coming into office in 1966 the National Liberation Council initiated policies that were intended to make the agricultural and industrial sectors contribute more in the process of development to easing the pressure on the country's balance of payments. As shown in Chapters 7, 8, and 9 the external imbalance had emerged primarily through the nature of development of these two sectors-monocultural characteristic of the agricultural sector and excessive dependence of the industrial sector on imported raw materials, let alone machinery, equipment and spare parts. This imbalance could have been avoided or at least its magnitude reduced, if due consideration had been given during the Nkrumah regime to the constraints which the industrialisation of a predominantly agricultural country could place on the balance of payments.

The policies adopted for easing the pressure on the balance of payments by the different governments from 1966 to 1972 will be dealt with from the two sectors just mentioned, viz. agriculture and industry.

(a) Agriculture - In the 1968/69 Budget Statement it was announced by the Commissioner responsible for Finance that much foreign exchange could be saved if domestic production of staple food items and raw-materials could be increased.

62. Just prior to the February 1972 announcement one estimate of the breakdown of Ghana's total external debt was as follows: Long-term debt \$231m; Suppliers' credits (principal) \$294m; Accrued moratorium interest on Suppliers' credit \$72m; Short-term debt(arrears on import payments, etc) \$286 million.

This announcement buttressed a policy statement in the 1967/68 Budget that diversification of crops would be vigorously pursued with respect to staple food crops and raw materials.

A detailed programme for the agricultural sector was included in the "Two-year Development Plan" which was scheduled for the period mid-1968 to mid-1970. Agriculture was accorded a strategic role in the plan[63] because it was held that a continuing growth in its output was a required condition for the development of the economy. The tasks assigned to it besides the contribution of a higher proportion of the country's food requirements, were:

> "to provide raw materials for existing and prospective factories in Ghana;" and
>
> "to provide surpluses for export of those commodities which Ghana can profitably sell on the world market, in either processed or unprocessed form." 64

The crops which were mentioned in the Plan for special consideration included oil palm, sugarcane, cotton, kenaf, tobacco and rubber. These crops were meant for the manufacturing sector and their availability was expected to decrease the dependence of the nascent import substituting industries on imported raw materials. For domestic consumption the production of rice and maize was to be increased; the latter was recognised as of special importance because besides being a staple food item it was also an important input for the country's livestock industry - an industry whose expansion could help much in reducing the country's great dependence on imported meat and live animals.

It is worth noting that the NLC established in 1968 a Cotton Development Board and charged it with the responsibility of developing the country's cotton industry with the object of not only attaining self-sufficiency in course of time but also producing surpluses for export.

No clear account of the results of the agricultural policies pursued under the Two-Year Plan could be obtained from the statements of the Busia

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63. Ghana Government "Two-Year Development Plan", Accra-Tema, 1968 p.3

64. Ibid. p.24

Government. In spite of its disclosure in the 1970/71 Budget Statement that by the end of 1969 most of the targets of the Two-Year Plan including those of the agricultural sector had been achieved[65] the Government nonetheless complained in the same budget statement of inadequate supplies of fruits, cotton and oil seeds locally produced for the domestic manufacturing industries.[66] Industrialists were therefore told to grow locally as far as possible all the raw materials they needed and not to nourish ideas of indefinite dependence on those imported.[67]

In the One-Year Development Plan,[68] it was acknowledged that there was a pressing need to improve husbandry practices as well as to increase the output of almost all the country's agricultural commodities. This was to be achieved by transforming, through modernisation, "a low income, low productivity agriculture into an industry with a large low-cost production potential".[69] It was expected that the transformation envisaged, if successful, would result in a diversification of output as well as in a decreased dependence on imports for food and raw materials for the manufacturing sector.

As the traditional Ghanaian farmer could not be relied upon to bring about the desired transformation, the Busia Government proposed a scheme whereby public servants who wished to take to farming could obtain either temporary or permanent release from public service in order to do so. To influence the scheme the Government decided to establish a special loan fund of ₵600,000.[70]

Following the initial success of the formation of the Cotton Development Board the NLC gave approval to the creation of a Grains Development Board and soon after taking office the Busia Government passed an act which brought the

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65. Ghana Government Budget Statement 1970/71 (pub.1970) Section 2. See also, Ghana Government One Year Development Plan, July, 1970 to June, 1971, Table 2.1

66.. Budget Statement 1970/71; op cit. Section 63

67. Ibid. Section 64

68. This was prepared by the Busia Government for the period July,1970 to June 1971 and published in September, 1970

69. Ibid, p.51

70. Budget Statement 1970/71; op cit. Section 67, This is similar to the call made in the 1969/70 Budget Statement issued during the office of the NLC to civil servants and all those with professional training in agriculture to go into farming.

Grains Development Board into being.[71] The object of the board was to stimulate increased production of grains and legumes in the country. The assigned objective was appropriate because as shown in Table 10.6 though total agricultural output on the whole showed a moderate increase during the latter half of the 1960's, per capita production generally declined. This development reflected itself in the rising values of the imports of food items as shown in Table 12 of Chapter 8.[72]

Table 10.6 INDEX OF TOTAL AND PER CAPITA AGRICULTURAL PRODUCTION, GHANA, 1966-1970

Year	Total Agricultural Production	Per capita Agricultural Production
	(1961-65 = 100)	(1961-65-100)
1966	108	100
1967	111	100
1968	104	91
1969	108	92
1970	109	90

Source: Table 5 of "Development Without Growth - The Case of Ghana in the 1960 ? by Jean M. Due, in Economic Bulletin of Ghana, Vol.3 No.1, 1973

The last most outstanding agricultural development policy of the period of our study was occasioned by import difficulties which arose from the repudiation of some of the country's external debts by the National Redemption Council in February 1972. The stoppage of virtually all foreign aid by creditor countries because of the repudiation compelled the Government to introduce a policy of self-reliance for the country. One useful demonstration of this policy

71. The Grains Development Board was established in April, 1970.

72. It is intimated in the One Year Development Plan, op. cit. (p.50) that the output of the agricultural sector, excluding cocoa, during the 1967/69 period did not probably grow as fast as the population.

was the adoption of an agricultural programme termed Operation Feed Yourself. The period 1972-74 was designated "agricultural war years" by the NRC and under the programme a drive was to be made during the "agricultural years" towards self-sufficiency in the supply from domestic sources of food and industrial raw materials.[73]

(b) Industry: When Nkrumah was ousted in 1966 a great many of the manufacturing projects in the public sector acquired by means of suppliers' credits were still under construction. Some state-owned manufacturing units built earlier on were however in production, but like factories in the private sector they were producing under capacity for lack of adequate raw materials. Capital inflow in the middle of the 1960s' was high; in terms of GDP it was about 8 per cent.[74] In constant 1960 prices the total stock of fixed capital increased from ₵842.15 million in 1960 to ₵1,616.19 million in 1966.[75] But productive capacity in the new industries was only 25 per cent utilised during the period.[76] For this reason when the NLC Government assumed office one of its immediate objectives with regard to the manufacturing sector was to promote the maximum use of existing capacity as a short-term measure in order to achieve a steady increase in output. The strategy for expansion was to facilitate the supply of essential raw materials and spare parts to manufacturing units. The policy objective of increased output was two-fold: import substitution and export promotion.[77]

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73. See - "Ghana Press Release No. 332/71, Accra

74. See - Hollis Chenery and M. Syrquin, "Patterns of Development 1950-70," O.U.P. for the World Bank, 1975, p.103. According to the authors capital inflow of over 4 per cent of GDP is ... high, between 0 and 4 per cent normal; otherwise it has negative values. See, footnote 26, on p.104.

75. See - T. Merritt Brown, "Macroeconomic Data of Ghana (Part 1) in The Economic Bulletin of Ghana, Volume 2 No.1, 1972. Table D.1. The values relate to net depreciated stocks implicit rate of depreciation derived from assumed half-life of each category of fixed capital.

76. London Chamber of Commerce, "Report of the Trade Missions to Nigeria, Ghana and Sierra Leone, London, March, 1969. pp.7-8

77. Budget Statement for 1967/68, Section 12.

The pursuit of the above measures together with the rationalisation of the import licensing procedure shortly led to an increase in production capacity. To ease the pressure on the balance of payments which the increased importation of raw materials would create industrialists were encouraged by the offer of drawback and other export promotion inducements to export as much of the goods which would be produced domestically.[78]

(viii) Inter-African Trade: During the period 1966-72 Ghana continued to pursue an inter-African trade policy. In line with this trade agreements were signed with a number of countries on the continent, including most of the neighbouring ones, Mali, Upper Volta, Togo, Dahomey (Benin), and Niger. The primary objective of these agreements was to provide the country's businessmen, especially the manufacturers with the opportunity of exploiting the potential markets on the continent. Showrooms were established in the capital towns of some of the countries to display "made-in-Ghana" goods. In Accra, two international trade fairs were held in 1967 and 1971. The country has actively participated in attempt to form the Economic Community of West African States (ECOWAS).

In terms of value Ghana's inter-African trade steadily increased but only moderately. Imports tended to exceed the value of exports and in 1972 the country's total value of inter-African trade was still below 10 per cent of its total external trade. An export trade in timber with the north African countries assumed some significance during the late 1960s and at the beginning of the 1970s attempts were made with some of the countries for the establishment of an import trade in oil.

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78. Budget Statement for 1969/70, Section 61

(ix) Summary - The NLC government which assumed office immediately after the 1966 coup quickly set about to find a solution to Ghana's balance of payments problems. Internally, it took measures to put an end to the central government's deficit financing, especially by reducing as much as possible expenditure on the development programme. Externally, it tried to correct the imbalance by budgeting imports. To put an end to trade controls it set on a course of trade liberalisation but in order to safeguard the balance of payments position it devalued the national currency by 30 per cent in 1967. Its efforts were accompanied by a steady improvement in the balance of payments position as well as by a more rapid rate of growth, especially in the manufacturing sector. It must, however, be noted that the encouraging results were considerably assisted by increasing export receipts which, in the main, were brought about by rising cocoa prices on the world market. By volume, however, exports decreased and imports increased after the 1967 devaluation.

The NLC government began at the earliest possible opportunity to negotiate the country's debts with its trading partners; to ease the debt burden on the country, especially during the process of rehabilitating the economy, the Government asked for the rescheduling of the payment time table. Further negotiations were conducted on debt rescheduling after the Busia government came into office in mid-1969. As a follow-up to its election campaign promise to dispense with all trade controls the Busia government embarked upon a massive liberalisation of import trade. Unfortunately, cocoa prices slumped on the world market throughout 1971 and this quickly changed a favourable trade balance into a large trade deficit and worsened the balance of payments. To rectify the situation the Government was compelled to devalue in December 1971 and the consequent rise in prices resulted in its overthrow a few weeks later. The new government that followed Busia's immediately imposed trade controls and revalued the currency, but not to the extent of restoring the exchange rate as it was just before it was devalued by the

Busia government.

In the field of production, the NLC government gave encouragement to private enterprise, especially Ghanaian, both in agriculture and in manufacturing. Efforts were made to diversify agriculture; some state farms were abandoned and private farmers once again provided with extension service. The Busia government and its successor followed up with the agricultural programme of the NLC, but because of the agricultural policies pursued by the Nkrumah regime the efforts of the governments that followed were attended with limited success. Food production was still far below domestic requirements and raw materials from the agricultural sector were too inadequate for the needs of the manufacturing sector.

CHAPTER 11

OBSERVATIONS ON SALIENT ISSUES FROM THE STUDY

Attention has been focussed in this study on Ghana's trade, agriculture and industrialisation with respect to the parts they played in the process of the country's economic development during the period 1951-1972.[1] The three aspects of the economy interact on one another and this study examined in the light of economic theory the effect of their interactions on Ghana's development performance and the measures that the policy makers could have taken to enable the economy to avoid the difficulties that greatly impaired its rate of growth.

Of the many points of theoretical interest which emerged in the study the noteworthy ones are considered in this chapter.

(i) Gains from Ghana's trade - By 1951 the country had already emerged as an important exporter of cocoa, gold, timber and a few other minor items. Domestically it had also acquired most of the features which characterised the economy during the period of study. The country was predominantly agricultural and the most important product of the sector was cocoa, a crop which had brought prosperity to the indigenous people and appreciable growth to the economy. It was partly through external trade that this was achieved. The other contributory factor was the existence of a democratic and equable social structure.

From the standpoint of the indigenous people the gains from trade were greatest in the case of the trade in cocoa, because it was in the cocoa industry that they played the role of entrepreneurs. The mining industry and to a less extent the timber industry were enclaves in the Ghana economy both before 1951 and for some time afterwards. The gains from the country's trade

1. Much of the inspiration for undertaking this study was derived from the following work: I. Little, T. Scitovsky, and M. Scott, Industry and Trade in Some Developing Countries, pub. by O.U.P. for O.E.C.D., 1970

in minerals and timber therefore accrued mostly to foreigners.[2] Even in the case of cocoa the foreign commercial intermediaries who acted as buyers and shippers of the crop acted oligopolistically and carved out for themselves much of the gains. But the indigenous people were still much better off when compared with the benefits derived from trade in previous centuries. However, the attempt by the Nkrumah regime to effect an alteration in the institutional arrangement for the country's external trade partly stemmed from this.

(ii) Ghana's export instability - Though Ghana's external trade has brought prosperity to the inhabitants of the country, it has nevertheless been fraught with problem, that of export instability. The primary cause of this instability has been its excessive dependence on cocoa as an export staple. This product had one of the highest indices of unit value instability. According to a study by MacBean, for the period 1948-57 the values of these two indices for the product were 19 per cent and 17 per cent respectively. The corresponding mean indices for the selected 27 commodities studied were 11.6 per cent and 14.0 per cent.[3] From 1951-1972 the latter's effect in the country's balance of payments, foreign exchange reserves and the Government's revenue from export duties was very pronounced. Overall export instability contributed to the following developments. The upswing of cocoa prices and the country's high export earnings which occured at the time Nkrumah was first appointed Prime Minister gave him a false notion of the country's capacity to sustain its earnings of foreign exchange at satisfactory levels. He evidently took the high inflow of trade earnings of the mid-1950s as the norm and prepared his subsequent development plans on the assumption of the country's foreign exchange earning experience of his early years in office. The down turn of cocoa prices during the first half of the 1960s when he was embarking

2. Very few indigenous people operated as loggers on their own in the timber industry before 1951. Generally the loggers were employees of the foreign owned sawmills. Indigenous participation in the timber industry in some numbers became evident in the late 1960s.

3. See, A. MacBean, Export Instability and Economic Development op.cit. Table 2.4, p.42

on a massive industrialisation programme resulted in the near exhaustion of the country's foreign exchange reserves and subsequently in Nkrumah's own overthrow.

Export instability also contributed to the overthrow of Busia's government. From 1967 to 1969 the NLC were able to carry out their trade liberalisation measures because world cocoa prices were then rising and the country's export earnings were on the increase. When the Busia government followed afterwards with a much more extensive trade liberalisation programme in 1970, a downward trend in world cocoa prices during the whole of 1971 created a serious balance of payments crisis for Ghana and forced the Busia government to devalue the cedi later in the year. Consequently, Busia's government was abruptly ended a couple of months later in a coup.[4]

(iii) Ghana's external trade and growth - During the period 1951-1972 Ghana's economy continued to be highly oriented towards external trade. As shown in Table II.1 the mean level of the ratio of its exports to GNP for the years 1950 to 1973 was 22.3 per cent, whilst the average size of the annual change in the ratio of its exports to its GNP during the same period was 0.51 per cent. Column 3 shows the mean annual change of per capita GNP, an indication of the country's rate of growth during the period, which was 1.62 per cent. It can be inferred from a comparison of the figures in columns (2) and (3) that Ghana's annual ratio of exports to GNP declined over the years.

According to Kravis unless favourable complementary conditions are present, trade can be nothing more than a handmaiden of growth.[5]

4. C.P. Kindleberger in Liberal Policies vs. Controls in the Foreign Trade of Developing Countries (A.I.D. discussion paper No.14) mimeo, 1967, says that although the hope of a liberal system appears to depend on a once-and-all devaluation, the following 4 conditions provide for its success: (i) domestic supply, especially of food and other wage goods must be elastic; (ii) imported intermediate goods should be made available in order to facilitate the expansion of the final goods requiring such imported inputs; (iii) there should either be a political consensus or effective political power to impose a solution and (v) the real expenditure of the different social groups will be reduced in some agreed and tolerable manner. Unfortunately, most of these conditions did not prevail in Ghana in order to make the large scale Busia trade liberalisation a success. For instance, the devaluation of 1971 was the second in four years.

5. See I. B. Kravis, op.cit.

When the cocoa and other industries were being developed in the country, the prevailing social structure and practices were such that the rent provided by the external sector for conveying the products of domestic economic activities to foreign markets for profitable disposal had the effect of expanding production. In this way trade became "an engine of growth."

Table II.1 THE SHARE OF EXPORTS AND THE RATE OF GROWTH GHANA AND SOME SELECTED COUNTRIES

Country	Mean level of X/GNP (1)	Mean annual change of X/GNP (2)	Mean annual change of per capita GNP (3)
1. Algeria	24.3	1.62	3.19
2. Burma	21.3	-5.06	2.50
3. Ethiopia	9.0	6.16	2.35
4. Gambia	41.5	1.42	2.14
5. GHANA	22.3	0.51	1.06
6. Kenya	26.4	1.83	2.05
7. Korea	7.4	15.05	5.04
8. Mauritius	45.1	1.38	0.53
9. Nigeria	14.7	-0.83	3.61
10. Upper Volta	7.7	0.09	0.34

Source: M. Michaely, Exports and Growth - An emperical investigation. Table 1 in Journal of Development Economics, 1977, p.51

Before 1951 Ghana's earning from its export trade could over the time horizon sufficiently pay for its import requirements of consumer goods and producers' inputs. This being the case problems of persistent external disequilibrium did not develop. In fact, from its balance of payments surpluses by 1951 it had acquired about £180 million worth of foreign exchange reserves. Even though substantial increases in the reserves took place during the war years, the value of the country's foreign exchange reserves which were made up of the assets of the central government, the Cocoa Marketing Board and other institutions, reached its peak in 1955. (See Table.5.12).

To retain international confidence in Ghana as a credit-worthy trading partner, the use of the reserves should have been judiciously determined in the light of the country's capacity to import in the long run. This was especially important in view of the high instability characteristic of the country's principal export crop, cocoa.

As a result of the development of new economic activities after 1951, especially the post-1957 industrialisation programme of the Government, the demand for imports soon exceeded what the export earnings could provide for. The situation would not have emerged if the export sector had expanded at least pari passu with increasing demand for imports. However, balance of payments deficits became persistent and the depletion of the country's foreign exchange reserves soon occured. Upon this development imports became a bottleneck to the industrialisation programme and the initial favourable growth rates of the nascent industrial sector were reduced.

Upon realising that the balance of payments was under pressure and that the foreign exchange reserves were decreasing much faster than was considered desirable the Government instituted some reform measures in 1961 in order to rectify the situation. These included the imposition of high taxes on imports and on incomes and the introduction of compulsory savings by firms and individuals and the contribution towards a fund by farmers out of their cocoa sales. Import licensing was also introduced. These measures however did not help much because cocoa "futures" prices fell steadily from ¢608.6 a ton in the 1957/58 season to ¢335.2 per ton in the 1964/65 season. This had an adverse effect on the country's foreign exchange reserves which fell sharply as from 1959. Expressed in terms of annual imports they were 114.7 per cent in 1960, 51.4 per cent in 1961, 27.4 per cent in 1964, and 8.2 per cent in 1965.[6]

6. See. J. Clark Leith.

The Government felt that cocoa prices on the world market could be improved if the eastern socialist countries could be given easy access to the cocoa market. Trade visits were made to Russia and the other eastern socialist countries in an endeavour to shift some of the country's trade from the West to the East. These attempts were accompanied by a limited measure of success.

(iv) A Strategy for industrialisation - In its efforts to industrialise as rapidly as possible soon after attaining political independence the country in a short space of time found itself in difficulties. It appears upon reflection that the attention devoted to the industrial sector happened to be at the expense of the other sectors. The priorities established for the industrialisation programme did not conform to widely recognised economic theories on development. Ghana's comparative advantage lay in agriculture and if the country had paid heed to international competitive efficiency in order to optimise the growth of the national product, the attention it should have given to the development of the agricultural sector should have been no less than that given to the industrial sector for the benefit of the industrial programme itself. This policy should also have obtained for another significant reason. In his report to the Ghana Government Professor Arthur Lewis stated that

> "the secret of industrialisation is a rapidly progressing agriculture" 7

The reason for this is that agriculture produces food for domestic consumption, raw materials for the manufacturing sector and export staples for foreign markets to earn foreign exchange for the procurement of required imports. To be realistic, therefore, an industrialisation programme depending very much on imported inputs should primarily be planned on the basis of a country's capacity to earn foreign exchange.

7. Industrialisation and the Gold Coast, paragraph 99. See also paragraphs 22 and 180.

It is evident from this study that during the latter '50s and the first half of the '60s Ghana did not align its industrialisation programme to its capacity to earn foreign exchange, which in turn depended mostly on the agricultural sector. Activities in the industrial sector carried out did not appear to have been meaningfully related to the state of the external balance. This is reflected in a report which appeared in Africa Diary:

> "While the [Ghana] Government talked a great deal about planning, it never began to take it seriously. Indeed, the whole hectic atmosphere of economic decision-making was in contradiction to the notion of planning. Irrationality cannot go further than to starve existing industries so that new ones can be created - new industries, moreover, which had received scant prior investigation. These failures and the new thinking proliferation of hastily-conceived state enterprises used up large amounts of foreign currency but resulted in absurdly poor levels of economic performance." 8

Another point worth noting was that most of the "hastily conceived state-enterprises" were acquired by means of suppliers' credits and in general they heavily depended on imported raw materials for their operation. The development of this phenomenon was encouraged by tax laws enacted to encourage the rapid development of industries. In the face of severe balance of payments constraints and import controls the importation of raw materials was greatly reduced and this resulted in under-utilisation of capacity and a great loss of productive efficiency.

One other factor which inhibited satisfactory expansion of domestic industries was the dearth of personnel with the requisite managerial skills.[9] The provision of training institutions, short term courses and "in factory" advice ameliorated the situation.

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8. Africa Diary, September, 5-11, 1966, p.3027

9. It is not the case, as stated in World Development Report, 1978 (published by World Bank, 1978), p.53 that the problems assailing Ghana's industrialisation programme include limitations imposed by the samll size of markets and inadequate vocational and technical skills. The established domestic oriented industries have had adequate domestic markets. Under-utilisation of capacity has been caused by inadequate supplies of imported inputs.

(v) Development of agriculture and Ghana's industrialisation – At various points in the study it became evident that the success or failure of industrialisation in Ghana depends to a considerable extent on the nature of development of the country's agriculture. In a newly industrialising country, before the industrial sector can export enough of its products to pay for its requirements of imported inputs, it is the exports of the agricultural sector that provide the foreign exchange used in paying for all the import requirements, including those for industrial development.[10]

Again, with regard to agricultural raw materials which can be locally produced, increased supplies from domestic sources has the effect of reducing the burden on the balance of payments, if heavy dependence on imported raw material obtains. Similarly, domestic expansion of food production will have the same effect. With regard to Ghana the post-Nkrumah governments realised this and initiated some measures in the agricultural sector in order to promote industrial growth and also to relieve the pressure on the balance of payments. The production of cotton and rice which was introduced in northern Ghana become a big success. The "Operation Feed Yourself" of Colonel Acheampong, which was started in 1972 was very successful and it was to be followed by an "Operation Feed Your Industry."

By the end of 1972 Ghana's agriculture still required further diversification and this could have been achieved if only the land resources of the various climatic regions of the country had been fully put to use. Not only would diversification have reduced commodity concentration in the country's export trade but it could also have secured for it an increase in export earnings. It was also then clear that success in Ghana's industrialisation would require a successful agricultural expansion one of whose objectives should be

> "to transform a predominantly traditional low productivity agriculture into a market oriented industry, in which farm inputs and production increasingly pass through commercial channels." 11

10. The mining sector and the inflow of foreign capital are here assumed away.
11. Ghana Government: One-Year Development Plan, op.cit. p.51

APPENDIX A

GHANA EXPORTS 1957-65: COMMODITY CONCENTRATION INDEXES ANNUALLY FOR MAJOR DESTINATIONS

Destinations	% of Exports 1957-65	1957	1958	1959	1960	1961	1962	1963	1964	1965	Mean 1957-65
United Kingdom	29.53	52.32	54.29	54.02	54.17	51.02	53.70	60.88	50.31	52.80	53.72
U.S.A.	18.15	72.21	76.20	81.12	74.85	85.85	86.09	88.72	89.68	91.59	82.92
Canada	1.27	98.40	92.90	72.35	91.50	90.82	78.58	79.85	91.56	77.86	85.98
E.C.M.	30.70	80.08	81.37	78.57	73.74	74.85	76.57	73.74	67.67	68.59	75.02
Australia & N.Zealand	2.02	97.80	99.20	98.01	98.20	94.46	90.80	92.59	91.45	90.46	94.77
U.S.S.R.	6.99	100.00	100.00	100.00	100.00	99.50	99.89	98.92	97.14	98.47	99.32
Scandinavia	3.54	66.30	73.19	67.20	66.36	61.46	64.74	63.58	69.28	68.66	66.75
Japan	1.62	-	-	64.43	79.95	91.40	85.57	95.70	94.28	96.16	86.78
All Destinations	100%	65.52	67.47	70.49	67.56	69.95	72.18	76.54	72.61	74.30	70.74

Source: J. Clark Leith, "Export Concentration and Instability: The Case of Ghana". "The Economic Bulletin of Ghana", Second series Vol.1, No.1 1971, pp.45-55

APPENDIX B

WORLD COCOA STATISTICS - GHANA'S SHARE IN WORLD PRODUCTION ('000 TONS)

Year	Ghana's Output (1)	Total World Output (2)	(1) as % of (2) (3)
1949/50	243	764	32.5
1950/51	260	768	34.1
1951/52	211	680	31.0
1952/53	247	742	33.3
1953/54	211	731	28.7
1954/55	220	820	26.8
1955/56	229	830	27.5
1956/57	264	893	29.6
1957/58	206	767	27.0
1958/59	255	905	28.2
1959/60	317	1,041	30.5
1960/61	432	1,172	36.9
1961/62	410	1,127	36.4
1962/63	422	1,157	36.5
1963/64	421	1,207	34.9
1964/65	557	1,482	37.6
1965/66	410	1,205	34.0
1966/67	376	1,333	28.2
1967/68	415	1,333	31.1
1968/69	334	1,221	27.4
1969/70	409	1,418	28.8
1970/71	386	1,479	26.1
1971/72	462	1,562	29.5
1972/73	421	1,365	30.8

Source; Ghana Cocoa Marketing Board 12th Annual Report and Accounts, September, 1959; Gill and Duffs: Cocoa Market Reports, 1971 and 1974; Ghana Economic Surveys, (various issues).

APPENDIX C

GHANA COCOA EXPORTS: TONNAGE, PRICES, TOTAL F.O.B. VALUES AND GOVERNMENT RECEIPTS, 1949/50 - 1971/72

Crop Year	Tonnage Exported '000 Tons	Av. Selling Futures Price: Ghana Cocoa Beans ₵/per Ton	Av. Quoted 'Spot' Price ₵/per Ton in London	Total F.O.B. Value (₵'m)	Government Receipts From Export Duty
1949/50	248	356.8	416	90.2	7.0
1950/51	260	537.0	570	140.6	26.8
1951/52	211	490.2	602	103.2	29.4
1952/53	247	462.9	574	114.2	32.0
1953/54	211	717.4	934	149.4	68.1
1954/55	220	710.2	604	154.9	76.7
1955/56	229	443.6	442	104.7	29.2
1956/57	264	479.0	494	101.3	23.9
1957/58	206	608.6	704	125.7	52.5
1958/59	255	561.0	570	142.9	51.1
1959/60	317	545.6	450	172.9	47.6
1960/61	411	420.6	360	172.9	36.1
1961/62	396	387.1	340	153.2	29.1
1962/63	405	398.8	417	161.4	31.5
1963/64	405	439.8	381	178.1	39.4
1964/65	523	335.2	282	175.2	23.6
1965/66	365	308.3	392	112.6	15.7
1966/67	320	462.2	569	148.1	29.8
1967/68	355	555.8	796	197.0	77.4
1968/69	288	675.6	1034	194.6	95.8
1969/70	355	858.6	761	304.8	182.7
1970/71	337	656.0	579	221.0	105.0
1971/72	405	702.9	902	284.8	117.8

Sources: Ghana Cocoa Marketing Board, Shipping Department, Accra; Cocoa Marketing Board At Work, 6th edition, 1977, Annual Reports and Accounts of the Ghana Cocoa Marketing Board; Central Bureau of Statistics, Economic Surveys, various issues.

APPENDIX D.1

GHANA: EXPENDITURE ON GROSS NATIONAL PRODUCTS – 1951–60 AT CURRENT MARKET PRICES

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
1. Private consumption expenditure	377	374	425	469	516	540	596	572	650	694
2. General Govt. consumption expenditure	21	29	31	54	52	60	66	70	78	96
3. Gross domestic fixed capital formation	42	54	60	78	104	112	112	110	154	194
4. Change in stocks	3	–	-5	6	–	10	-12	-2	20	22
5. Exports of goods and non-factor services	191	177	187	244	202	182	192	220	240	246
6. Imports of goods and non-factor services	-139	-143	-163	-154	-194	-198	-214	-190	-252	-296
7. Expenditure on gross domestic product	495	491	535	696	680	706	740	780	890	956
8. Net factor income from abroad	-13	-10	-11	-9	-4	-4	-6	-4	-6	-10
9. Expenditure on gross national product	482	481	524	687	676	702	734	776	884	946

<u>Source</u>: U.N. Year-book of National Accounts Statistics, 1958 issue for 1951–53 figures and 1959 for 1954 figures and <u>Ghana Economic Survey, 1964</u>, for 1955–1960 figures.

APPENDIX D.2

EXPENDITURE ON GROSS NATIONAL PRODUCT, 1961-72 AT CURRENT MARKET PRICES

¢'million

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
1. Private consumption expenditure	804	830	916	987	1255	1337	1286	1467	1460.6	1664.7	1915.7	2095.3
2. General Govt.consumption expenditure	110	112	138	160	205	261	308	363	284.7	290.3	324.5	354.9
3. Gross fixed capital formation	210	184	218	232	271	246	213	254	195.3	271.4	310.7	244.4
4. Change in stocks	-20	-12	-8	+14	+1	+15	+6	-	+40.6	+48.3	+42.5	-43.5
5. Exports of goods and non-factor services	244	240	234	247	252	219	265	368	447.2	523.2	443.3	647.8
6. Imports of goods and non-factor services	-326	-270	-290	-283	-376	-285	-300	-358	-427.7	-538.6	-536.2	-483.5
7. Expenditure on gross domestic product	1022	1094	1208	1357	+1608	17953	1778	2074	2000.7	2259.3	2500.5	2815.4
8. Net factor income from abroad	-14	-10	-18	-12	-19	-14	-21	-39	-58.1	-47.8	-64.8	-40.2
9. Expenditure on gross national product	1008	1084	1190	1345	1589	1779	1757	2055	1942.6	2211.5	2435.7	2775.5

<u>Source:</u> Central Bureau of Statistics, <u>Economic Surveys</u>, Accra various issues

APPENDIX E

RATIO OF IMPORTED INPUTS TO TOTAL MATERIALS USED IN SELECTED MANUFACTURING ACTIVITIES IN GHANA, 1968

Economic activity and Industry Code	Gross Output ¢'m	Imported materials ¢'m	Imported/ Total materials
20			(Ratio)
Slaughtering, preservation etc. of meat	1.10	0.28	0.57
Orange and lemon squash	0.97	0.06	0.16
Biscuit manufacturing	1.06	0.53	1.00
Bread, pasteries etc.	1.86	0.44	0.56
Cocoa butter manufacturing	14.18	0.27	0.32
21			
Spirit distillery	3.37	0.84	0.47
Beer brewing	16.80	1.68	0.54
Soft drinks & carbonated water industries	4.25	0.64	1.00
22			
Processing and packing of raw tobacco leaves	2.15	0.01	0.01
23			
Spinning, weaving and finishing of other textiles	20.91	8.67	0.90
Knitting mills	0.26	0.10	1.00
24			
Manufacture of shoes, etc.	4.67	0.62	0.94
Manufacture of wearing apparel except footwear	10.01	0.60	0.98
Manufacture of jute bags	3.73	1.30	0.95
Manufacture of mattresses and pillows	1.23	0.04	0.69
Manufacture of bed-sheets napkins, etc.	1.32	0.61	1.00
25 - 26			
Sawing and sawmilling	22.69	6.45	0.46
Plywood & Veneer making	1.41	0.35	0.70
Furniture industry	1.85	0.38	0.33
27 - 28			
Manufacture of paper and paper products	6.17	2.78	0.99
Printing	6.71	1.25	0.89
29			
Leather products	0.66	0.34	1.00
30			
Tyre retreading	0.17	0.07	1.00
processing of natural raw rubber	0.08	-	0.59

..../2-

Economic activity and Industry Code	Gross Output ¢'m	Imported materials ¢'m	Imported/ Total materials (ratio)
31 - 32			
Other industrial chemicals copra oil mills	1.57	0.73	1.00
Palm oil manufacturing	0.33	0.03	0.17
Vegetable & Animal oil fats	0.50	0.22	0.43
Manufacture of paints, etc.	1.39	0.70	0.93
Soap production	10.83	6.22	0.88
Perfumery industry	1.52	0.56	0.92
Pharmaceuticals	2.27	1.18	0.91
Petroleum refinning	6.38	0.45	1.00
33			
Manufacture of Glass and Glass products	1.47	0.70	0.89
Manufacture of Cement	6.33	3.07	0.99
34			
Basic metals	1.08	0.26	0.72
35			
Aluminium ware	3.30	2.10	0.99
Manufacture of nails	0.79	0.23	0.65
Manufacture of other metal products (except machinery)	5.77	2.28	0.98
37			
Radio and Electrical repairing	2.35	1.07	1.00
38			
Boat building and repairing	1.17	0.32	0.57
Assembling of Motor vehicles	5.33	3.27	0.96
39			
Manufacture of musical instruments, e.g. records	0.18	0.04	1.00
Manufacture of plastic goods	2.05	0.96	1.00

<u>Source</u>: Bank of Ghana

APPENDIX F

DOMESTIC RESOURCE COST

The Domestic Resource Cost (DRC) approach is used to evaluate economic activities in cases where foreign exchange is found to be a constraint. DRC values or co-efficients provide an indication of the relative efficiencies of different economic activities using domestic resources with the object of either saving or earning foreign exchange through import substitution or export promotion.

One method of calculating DRC is to assess the cost of production in terms of the total (direct and indirect) use of primary factors, instead of direct inputs. This method of assessing cost is convenient when a widely accepted accounting price is not available and when the use of the cost structure of direct inputs would yield misleading results.

When domestic resources are considered in terms of primary factors it is then possible to assess their cost if there is some notion of their opportunity cost. Again, in order to derive the co-efficientse of the economic activity using the domestic resources, use is made of an input-output system or its sub-set relating to the economic activity.

When in the matter of import substitution DRC is calculated with reference only to the foreign exchange saved or earned, it is then being calculated net of such other benefits as expansion of employment and linkage effects.

In his 1967-68 study of Ghana's manufacturing sector (as mentioned in Chapter 9) Steel made use of the "Bruno ratio"[1] in calculating the DRC co-efficients of the various manufacturing units he investigated. With reference to an import substitution process the numerator of the ratio relates to domestic resources cost (with benefits netted out of costs) and the denominator to foreign exchange (with any costs netted out of benefits).

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1. See - M. Bruno, "The Optimal Selection of Export-Promotion and Import-substituting projects in Planning the External Sector: Techniques, Problems and Policies, by the UN., (1967), pp.88-135

Foreign exchange is the benefit to be gained from the import substituting activity and what the ratio measures is DRC per a unit of foreign exchange saved (or earned). If the ratio is equal to or less than one, then with reference to the economic activity in question, the domestic resources are being used efficiently.

In his study Steel used the then prevailing exchange rate of ¢1.02 = $1.00 instead of a shadow foreign exchange rate.

The Bruno equation for calculating DRC for economic activity j is as follows:

$$DRC_j = \frac{\sum_{s=1}^{m} \bar{f}_{sj} v_s}{P_j - (\bar{m} + 1)_j}$$

where $\bar{f}_{sj}$ = total co-efficients, comprising direct plus indirect use of primary factor inputs (s = 1, 2, 3 ..... m) per unit of output j)

v_s = domestic accounting price of s-th primary factor input.

P_j = c.i.f. price of a unit of final good valued in foreign exchange

$(\bar{m} + 1)_j$ = foreign exchange cost of total (direct plus indirect) input requirements for the production of a unit of output j together with a shadow foreign exchange rate.

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